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## REPORT ON CONSUMER CREDIT

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on the subject of consumer credit.*



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Catalogue No. YC3-271 /1

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ROGER DUHAMEL, F.R.S.C.  
Queen's Printer and Controller of Stationery  
Ottawa, Canada  
1967

Report on

# CONSUMER CREDIT

OF  
THE SPECIAL JOINT COMMITTEE OF  
THE SENATE AND THE HOUSE OF COMMONS  
ON CONSUMER CREDIT AND COST OF LIVING

February 1967

Joint Chairmen

THE HONOURABLE DAVID A. CROLL  
MR. RON BASFORD, M.P.

Members of the Special Joint Committee  
of the Senate and House of Commons  
on  
Consumer Credit and Cost of Living

(As of January 24, 1967)

**FOR THE SENATE:**

\*The Honourable DAVID A. CROLL, *Joint Chairman*, and  
The Honourable Senators

CARTER	MCGRAND
COOK	O'LEARY ( <i>Antigonish-Guysborough</i> )
HASTINGS	THORVALDSON
HOLLETT	URQUHART
INMAN	VAILLANCOURT . . . (12)
MCDONALD	

**FOR THE HOUSE OF COMMONS:**

\*Mr. RON BASFORD, *Joint Chairman*, and

Messrs.	Messrs.
*ALLMAND	MANDZIUK
ANDRAS	*MCCUTCHEON
BOULANGER	MCLELLAND
CHOQUETTE	O'KEEFE
CLANCY	*OLSON
CODE	OTTO
CROSSMAN	Mrs. RIDEOUT
HORNER ( <i>Acadia</i> )	MESSRS.
IRVINE	RYAN
LEBLANC ( <i>Laurier</i> )	*SALTSMAN
LEFEBVRE	SMITH
MRS. MACINNIS	WHELAN . . . (24)

\*On Steering Committee.

NOTE: See Appendix No. 1 for list of all who served on the Committee during investigation of consumer credit. In September 1966 the Committee was instructed to look into "the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;" an enquiry which is now under way.

## ORDERS OF REFERENCE

### EXTRACT FROM THE VOTES AND PROCEEDINGS OF THE HOUSE OF COMMONS OF 15TH MARCH, 1966:

"Mr. Hellyer for Mr. Sharp, seconded by Mr. Pennell, moved—that a joint committee of the Senate and House of Commons be appointed to enquire into and report upon the problems of consumer credit, more particularly but not so as to restrict the generality of the foregoing to enquire into and report upon the operation of Canadian legislation in relation thereto;

That twenty-four members of the House of Commons to be designated by the House at a later date, be members of the joint committee, and that Standing Order 67(1) of the House of Commons be suspended in relation thereto;

That the said committee have power to call for persons, papers and records and examine witnesses; to sit while the House is sitting, and to report from time to time and to print such papers and evidence from day to day as may be deemed advisable, and that Standing Order 66 be suspended in relation thereto; and to engage the services of counsel, accountants and such other clerical and technical personnel as may be deemed necessary, that the Minutes of Proceedings of and evidence given before the joint committee during the Twenty-Sixth Parliament be referred to the said committee and be made part of the records thereof; and that a message be sent to the Senate requesting that House to unite with this House for the above purpose, and to select, if the Senate deems it advisable, some of its Members to act on the proposed joint committee.

And debate arising thereon, by unanimous consent, the said motion was amended to read as follows:

That a joint committee of the Senate and House of Commons be appointed to enquire into and report upon the problems of consumer credit, more particularly but not so as to restrict the generality of the foregoing to enquire into and report upon the operation of Canadian legislation in relation thereto;

That twenty-four members of the House of Commons to be designated by the House at a later date, be members of the joint committee, and that Standing Order 67(1) of the House of Commons be suspended in relation thereto;

That the said committee have power to call for persons, papers and records and examine witnesses; to report from time to time and to print such papers and evidence from day to day as may be deemed advisable, and that Standing Order 66 be suspended in relation thereto; and to engage the services of counsel, accountants and such other clerical and technical personnel as may be deemed necessary, that the Minutes of Proceedings of and evidence given before the joint committee during the Twenty-Sixth Parliament be

referred to the said committee and be made part of the records thereof; and that a message be sent to the Senate requesting that House to unite with this House for the above purpose, and to select, if the Senate deems it advisable, some of its Members to act on the proposed joint committee.

And the question being put on the said motion, as amended, it was agreed to."

LÉON J. RAYMOND,  
*Clerk of the House of Commons.*

EXTRACT FROM THE MINUTES OF THE PROCEEDINGS OF THE SENATE  
OF 23RD MARCH, 1966:

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Croll:

That the Senate do unite with the House of Commons in the appointment of a Joint Committee of both Houses of Parliament to enquire into and report upon the problem of consumer credit, more particularly, but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto;

That twelve Members of the Senate to be designated by the Senate at a later date be members of the Joint Committee;

That the said committee have power to call for persons, papers and records and examine witnesses; to report from time to time and to print such papers and evidence from day to day as may be deemed advisable and to engage the services of counsel, accountants and such other clerical and technical personnel as may be deemed necessary, and to sit during sittings and adjournments of the Senate;

That the minutes of proceedings and evidence given before the Joint Committee during the Twenty-sixth Parliament be referred to the said Committee and be made part of the records thereof; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

J. F. MACNEILL,  
*Clerk of the Senate.*

EXTRACT FROM THE VOTES AND PROCEEDINGS OF THE HOUSE OF  
COMMONS OF 9TH SEPTEMBER, 1966:

Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on

March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words “by this House on March 15, 1966” where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

“That the Committee have leave to sit notwithstanding any adjournment of this House;”.

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to.

LÉON J. RAYMOND,  
*Clerk of the House of Commons.*

# EXTRACT FROM THE MINUTES OF THE PROCEEDINGS OF THE SENATE OF 13TH SEPTEMBER, 1966:

“With leave of the Senate,

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree with the House of Commons that the joint Committee of the Senate and House of Commons appointed to enquire into and report upon the problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

J. F. MACNEILL,  
*Clerk of the Senate.*

NOTE: The Committee was first constituted in November 1963. It was reconstituted in March 1964 and in March 1966.



## FOREWORD

In nineteen meetings of our Committee, mainly concentrated in a period of ten months, we believe that most aspects of consumer credit — certainly those of greatest concern to the general public — were thoroughly aired. We have been impressed by the tremendous increase in consumer credit in recent years, and its growing influence on the economic life of the country. When you consider that consumers account for about two-thirds of national expenditure, the importance of the manner in which this expenditure is made can hardly be overemphasized. Consumer credit has been the subject of detailed study in many parts of Canada — particularly in Nova Scotia, Ontario, Manitoba and Alberta. We have benefitted by these investigations, and our meeting with the Ontario Legislative Committee on Consumer Credit was most helpful. We have also learned a good deal from enquiries that have been going on south of the border as well as reports emanating from Britain.

Members of the Committee are well aware of the social as well as the economic implications of the upsurge in consumer credit purchasing. We are all consumers of goods and services, and there is hardly an individual, particularly in the growing urban areas, who has not at one time or another made use of credit. Many people who “Buy now — pay later” have attained a higher standard of living than would otherwise have been possible. But there are also those — we believe them to be a substantial minority — who are piling up trouble for themselves and their families in the enticing world of easy credit. These are the people who, through lack of understanding, commit their small discretionary incomes to buying beyond their means and paying such high rates for use of money that they may even be left without any discretionary income for the foreseeable future.

In the area of consumer credit as in other areas of business, interests of various groups in society are not identical. To some extent they are bound to conflict. Borrowers do not see eye to eye with lenders. Those who have sufficient assets to pledge as security are usually in a good position to borrow at relatively favorable rates from a bank, or at even lower rates if they have a life insurance policy on which they can raise a loan. For them, the important thing is to maintain these rates. It is the lower-income groups, with little or no assets who, when in need of money, have no other source than the money-lenders and small loans companies. What they want is to be protected from unreasonably high charges for the use of the money, and when the door to commercial borrowing is closed to them, to have some place to which they can turn as a last resort.

Borrowers of small sums are already protected to a considerable extent when the transaction is a pure and simple one of lending money, but not all loans to consumers are of this type. Many difficulties in which lower-income families find themselves today arise out of debts incurred in transactions where the main business is the purchase of goods, with the borrowing of

money directly related to financing the purchase. The kinds of credit offered to consumers have changed so drastically in recent years that more and more people are finding it difficult today to understand the nature of their commitments. Indeed, in certain kinds of transactions, which are becoming standard practice in some large department stores, to figure out the rate charged for financing is obviously beyond the powers of any customer, since he is not in possession of the factors taken into account in the calculation. The lender makes the calculation after the customer has committed himself to the purchase.

Although there are broad areas of agreement, the interests of lenders vary according to the nature of their business. Finance companies as well as retail merchants have a stake in maintaining a high level of sales. Individual members of credit unions may be savers and borrowers. The Canadian Federation of Agriculture reminded us that farmers are consumers as well as producers. Similar illustrations could be multiplied. It is a natural human tendency to equate one's own interest with the public interest, but recent events have demonstrated that irresponsible actions by a few businessmen can help to shake public confidence in financial institutions. There is widespread public demand for regulation of the operation of finance companies in the interests both of those who lend them money and those who borrow from them. The latter group is the particular concern of this Committee.

Remembering that Parliament, and Parliament alone, represents the interest of all citizens, we have tried to evaluate the strength and weaknesses of the many arguments presented to us. We were greatly aided in this by the appearance before us of able people with special knowledge of the multifarious aspects of the consumer credit business.

We cannot praise too highly the help we received from Mr. K. R. MacGregor, former Superintendent of Insurance. The broad sweep of his knowledge, obviously combining extensive academic studies with long administrative experience, gave us an intimate understanding of the place of small loans in the whole field of consumer credit. The overall story of the development of consumer credit as an important part of the Canadian economy was presented by the Chief of Research of the Bank of Canada, Mr. Gerald K. Bouey. Professor Jacob S. Ziegel of the University of Saskatchewan placed this phenomenon in perspective by giving us the benefit of his studies of the evolution and contemporary situation of consumer credit legislation in Canada and in other parts of the world. Last, but not least, we learned from Mr. Douglas D. Irwin, financial consultant to the Ontario Committee on Consumer Credit, how actuarial science can reduce the most complex and varied factors to simple terms and tables which can be used by us ordinary mortals.

It is inevitable in a study of this kind that the evidence tends to stray beyond the terms of reference. We heard a good deal about many areas of concern to consumers, particularly the broad and related aspects of quality

and prices. The whole question of the need to protect consumers in the market place is receiving consideration elsewhere, and since this Committee has now entered into a new phase of study dealing specifically with prices and also with advertising and packaging, weights and measures, we decided, except when it was necessary for orientation to go beyond the subject, to confine our report strictly to consumer credit. Other consumer problems will be dealt with in the forthcoming report on cost of living.

It will be apparent to readers of this report that members of the Committee have no desire to regulate simply for the sake of regulating, but where we are convinced that the public interest requires that action be taken, we accept responsibility for considering what changes are needed and recommending how desirable ends can best be achieved.

Because the evidence presented to us is printed in the public record of our hearings we are not repeating it here, except to indicate the more important ways in which it has influenced our thinking. Other selected sources are listed in an appendix for the benefit of students of the subject who may wish to follow it further.

We acknowledge with thanks the continuous interest maintained throughout by our staff, all of whom assisted substantially in bringing to completion this complicated task. We appreciate also the help received from permanent employees of the Senate. The contribution of each individual is outlined in the note on Procedure.

The Parliamentary Librarian, Mr. E. J. Spicer, and his staff gave us full cooperation throughout the study, and this was particularly appreciated in the critical period when our report was being prepared.

Ottawa, Canada  
February 1967

DAVID A. CROLL,  
RON BASFORD,  
*Joint Chairmen.*

## PROCEDURE

All meetings of the Committee were held in Ottawa, and the work was carried on with a small but competent and devoted staff. At the outset Mr. John J. Urie, Q.C. was engaged as Counsel and Mr. Jacques L'Heureux as Accountant. These two experts in fields of knowledge so important to an understanding of consumer credit attended hearings regularly and prepared useful background information. Mr. Urie's knowledgeable questioning of the witnesses brought out significant aspects of the subject and contributed much to our understanding of complex matters. We benefitted especially by his insight into constitutional law, and he prepared the section in the report dealing with constitutional issues involved in consumer credit legislation.

Mrs. Svanhuit Josie, an experienced research economist, joined us as Consultant in July 1966 to assist the Joint Chairmen in preparing a draft report. For six months she worked with them, particularly with Senator Croll, helping to fashion a report which would truly reflect the evidence and the considered views of the Committee.

The permanent staff of the Senate assisted the Committee at all stages of this undertaking. Mr. E. R. Hopkins, Law Clerk and Parliamentary Counsel, gave us the benefit of his wide experience. The Committees Branch carried out the exacting and time-consuming work of arranging for meetings and the many other tasks that are an inevitable part of enquiries of this kind. These responsibilities fell mainly on Mr. John A. Hinds, Assistant Chief Clerk of Committees, and Mr. Dale M. Jarvis who acted as Clerk of the Committee throughout the hearings on consumer credit, except for the last meeting when Mr. Jarvis had left to take another position and Mr. Hinds took over.

Both day-to-day committee work and preparation of a report involve a great deal of secretarial work and typing. During the hearings Miss Marion I. Ballantyne served competently as secretary and typist. The important task of typing and re-typing the manuscript was done well and cheerfully by Miss Barbara Anne Berrigan.

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# I

## CONSTITUTIONAL ISSUES

Your Committee did not investigate in depth the constitutional problems involved, but sufficient evidence was adduced to indicate that the problems of divided legislative jurisdiction, as between Parliament and the provincial legislatures, affect the area of consumer credit as they do many other areas of our economy. It was decided, therefore, to make recommendations without precise regard to the division of legislative power. Certain of the recommendations are clearly within the competence of the Parliament of Canada, e.g., the amendment of the Small Loans Act to raise its monetary ceiling and the proposal for the guarantee of loans to low-income families. On the other hand, certain other recommendations are either in a doubtful area or within the legislative competence of the provincial legislatures.

The main relevant heads of federal jurisdiction in the field of consumer credit under which Parliament might legislate are: Census and Statistics, Banking, Savings Banks, Bills of Exchange and Promissory Notes, Interest, Bankruptcy and Insolvency, and Criminal Law. The regulation of Trade and Commerce under Head 2 of the British North America Act has been omitted from the list because it has in practice been invoked only in support of some other head of federal jurisdiction.

The jurisdiction of Parliament to legislate under the head of "Interest" creates a special problem which has not been clarified by the recent decision of the Supreme Court of Canada in the *Barfried* case. That Sphinx-like case appears to give to the provincial legislatures a green light in the field of cash loans — and presumably also in the field of consumer credit in its broadest aspect — in holding that the provinces may legislate in this field, thereby dealing, although only incidentally, with interest. Interest was defined somewhat narrowly in that case and the Court did not direct its attention to the fundamental question of whether Parliament, in legislating in respect of interest, might also deal

with other charges forming part of the total cost of a loan, or an extension of credit, as being necessarily incidental or ancillary to interest as defined in the *Barfried* case.

The evidence submitted to your Committee indicated clearly that in order to deal effectively with consumer credit it is necessary to legislate with respect to the total cost of that credit, just as the Small Loans Act deals with the total cost of a cash loan under \$1,500. The Supreme Court of Canada in the *Barfried* case, did not advert to or impugn the validity of the federal Small Loans legislation, but the question of its validity was not specifically in issue. In his evidence, Mr. K. R. MacGregor, the former Superintendent of Insurance, expressed the view that the Supreme Court of Canada might well hold that disclosure legislation in respect of the total cost of consumer credit might be upheld as valid by analogy to the Small Loans Act. It might indeed be that both Parliament and the provincial legislatures may deal in different aspects with the total cost of loans and credit extensions. There would appear to be a certain logicity and color of right in extending the principle of the Small Loans legislation, now occupied by the Parliament of Canada, to similar areas involved in the advancement of consumer credit. All of this is of course speculative, and the precise ambit of Parliament's jurisdiction in relation to "Interest" remains undefined by the Supreme Court.

Accordingly, your Committee decided to make its basic recommendations as if Parliament had complete jurisdiction in those areas covered by Recommendations 1 to 5, inclusive, hereinafter set forth. The remaining recommendations are in areas in which the provincial legislatures have jurisdiction or in which there is doubt as to which of the legislative bodies in fact has jurisdiction. It appears to your Committee that if the problem is to be attacked completely, there will be need for the utmost federal-provincial cooperation, bearing in mind the respective fields of jurisdiction, and that at some point the jurisdictional problems involved may have to be resolved, if not by a constitutional amendment agreed upon between the federal and provincial authorities, then either by a test case or a formal reference to the Supreme Court of Canada.

## II

### CONCLUSIONS AND RECOMMENDATIONS

#### INTRODUCTION

The evidence presented to us during our many hearings, and the substance of the numerous bills referred to us, have now been assessed in the light of our broad terms of reference in the field of consumer credit. It seems reasonable that the Committee should recommend, without restraint or qualification, whatever needs to be done to assist consumers to meet the pressing problems of the nineteen-sixties, leaving it to the appropriate governments and the legislatures to work out cooperatively the means of achieving the desired ends.

Of the many problems arising out of consumer credit which were brought to our attention during the hearings, two have been identified which appear in various forms and which stand out above the others. The first concerns the troubles besetting those who buy on credit without understanding the price they are paying for borrowing. The second concerns the plight of low-income families who are from time to time in desperate need of credit for necessary goods or services but to whom commercial credit is either not readily available or not available at all. The first three of our recommendations accordingly deal with these important and urgent matters. The recommendations in summary form are presented first but some of our more general impressions and considered opinions leading up to the recommendations are set out in the Conclusions.

#### RECOMMENDATIONS

1. We endorse the principle of what is popularly known as "truth in lending": that is, the principle embodied in the disclosure bills that have been repeatedly introduced in the Senate and in the House of Commons. Specifically, we recommend that every person, firm or corporation, including every chartered bank, carrying on the business of extending consumer credit, shall be required by law to disclose to

the consumer the total cost of that credit, expressed both as a lump sum and in terms of simple annual interest.

Support for legislation of this kind is now almost universal; it has developed into a popular demand for action. Disclosure legislation was endorsed by the Royal Commission on Banking and Finance, and many responsible groups have urged on this Committee the need to proceed with it at once. There is no doubt that it would be in the public interest, that the time is ripe, and that it should be done now.

2. The principle of "truth in lending" should be extended to provide protection for all potential borrowers, whether or not they are at the point of committing themselves to a purchase or a loan. For this reason it is essential that all advertising of credit should truthfully and accurately state the total cost of the credit to the consumer.

We therefore recommend that all advertisements which offer credit or lending should be required to set out in annual percentage rates as well as in dollars and cents the added cost to the consumer for the use of the money. False and misleading advertising (such as advertisements quoting "special low rates" as if these were of general application when in fact they are available only to a select few) should be prohibited. "Truth in advertising" should go hand in hand with "truth in lending".

3. In order to prevent low-income families from becoming mired in debts from which they can never hope to extricate themselves, we recommend that the federal government make available, through the regular banking system, guaranteed consumer loans under specified conditions to all with annual family incomes of \$4,000 or less. The loans would be repayable over an extended period, and would bear a low rate of interest. They would be made only for provident and productive purposes related to the preservation of home and family. The maximum size of such a loan would be \$1,500.

It would greatly aid the fight against poverty if needy people were given access to credit on reasonable terms. Those with low incomes are much more likely than others to require cash loans for necessary purchases. We believe the plan we propose would help to strengthen family life by relieving a vulnerable group of Canadians of a tremendous economic, social and psychological load. Not only would it meet an urgent need, but it would encourage thrift and independence, if we were to add to the statute books "An Act to Facilitate (under Guarantee) the Obtaining of Loans for Necessary Goods and Services at Low Rates and with Extended Time for Repayment". Experience suggests that the risk of losses would be small.

4. We recommend that the Parliament of Canada extend the protection accorded to borrowers under the Small Loans Act so as to include loans up to \$5,000 rather than loans up to \$1,500, with appropriate interest ceilings. There was widespread support of this indicated in the representations made to us and in the report of the Royal Commission on Banking and Finance. Under the Small Loans Act there is a maximum rate of 2 per cent per month on the first \$300 borrowed, the rate falling to 1 per cent in respect of amounts between \$300 and \$1,000 and to one-half of 1 per cent in respect of amounts of between \$1,000 and \$1,500. (The Royal Commission on Banking and Finance recommended that the formula retain the present 2 per cent per month maximum on the first \$300 borrowed and that a flat rate of 1 per cent a month apply to all higher amounts up to \$5,000.)

5. We are concerned about the practice known as "captive sales financing", which is common in the merchandising of consumer durable goods, particularly in the sale of motor cars. Parliament has expressed, in the Combines Investigation Act, its desire to encourage the regulation of industry by free competition. However, the Act does not at present apply generally in respect of service industries. The Committee recommends that the scope of the legislation be enlarged, so as to ensure that such free competition will obtain, at least in the sales finance industry, by providing for the regulation of so-called "captive sales financing"; that is, of the operations in that field of manufacturers, distributors, dealers and others not principally engaged in sales finance.

6. Consumers are sometimes compelled to pay for faulty or defective goods, or even for goods they never receive. This is particularly hard on the consumer when, as occasionally happens, the purchaser of his obligation to pay has no knowledge of the original transaction. To prevent situations of that kind, we recommend that every bill or note given in connection with a retail credit transaction be required to be so marked on its face. Along with the purchase of the right to collect the consumer's money should go any undischarged obligations to the consumer that formed part of the original transaction. The party making the sale to the consumer would not be prevented from selling the paper to a third party, but the new creditor would in effect step into his shoes vis-a-vis the consumer, assuming both the rights and obligations involved in the original transaction. This should protect consumers against fly-by-night operators who leave the customer responsible for payments to some third party who has no obligations to him.

7. A cooling-off period of three days should be allowed for the reconsideration by the buyer of purchases made on credit, off store

premises, during which the purchaser may without penalty return the goods and recover back any monies paid by him.

8. An appropriate government agency should prepare and distribute to dealers and retailers a standard form of agreement applicable to all sales of goods on credit. A copy of the agreement should be given to every person who assumes an obligation under it.

9. Every retail credit sale should contain a clause giving the purchaser the right to prepay before the normal term without penalty and with a proportionate rebate of prepaid charges.

10. Collection agency practices sometimes harass the poor and unsophisticated. Present practices in this area should be carefully examined with a view to their strict regulation and supervision. We recommend in particular that collection agencies be prohibited from obtaining wage assignments from debtors and that wage assignments in favor of credit grantors be permitted only if the assignment is contained in a separate self-contained document.

11. We urge the implementation in all parts of Canada of the new Part X of the federal Bankruptcy Act, which provides a procedure for the orderly payment of debts under court supervision. This would provide an alternative for many who are now forced deeper into debt through arrangements made with finance companies. Part X may be brought into force in any province on the request of its Lieutenant Governor in Council.

12. Your Committee fully endorses the principle embodied in existing legislation providing relief from unconscionable transactions, and recommends its extension to all parts of Canada.

13. Information and education—sometimes called money management or budget advice and counselling—would not solve all consumer credit problems, but we believe that their institution would constitute a step in the right direction. Objective and authoritative general information would be prepared and widely distributed. This would explain in clear and understandable language what all potential credit-buyers should know, including:

- (1) Interest costs, with tables in both percentage and dollar terms, particularly illustrating the effect on costs of refinancing and consolidation of debts.
- (2) The kinds of outlays for which it is not unreasonable even for lower-income individuals to incur debts.
- (3) The minimum net or disposable income which safely permits credit buying, and for those above that level, what percentage can reasonably be pledged for future payments.

(Examples might illustrate the need to take into account present commitments as well as current income and the likelihood of it continuing, increasing or decreasing, depending on such factors as age of the individual, his prospects of continuous and continuing employment, contributions by other family members now made or contemplated.)

- (4) The nature and extent of the protection and assistance available to consumers under existing law.

14. In addition to receiving information of a general nature that is widely applicable, a minority of Canadians require personal financial advice and counselling on an individual basis. It is essential that help of that kind come from agencies free of ties with companies primarily interested in increasing the credit outstanding. Consideration might be given to making government grants to family agencies and to credit unions and caisses populaires to enable them to employ for this purpose persons with a specialized knowledge of financial matters.

15. We have already set out the reasons why we believe that the financing of used cars has become a social problem. We therefore recommend, in the public interest, that:

- (1) In order that prospective purchasers may ascertain the history of used cars before committing themselves to purchase, a central registry of all cars should be set up in each province, with the same number associated with a car throughout its lifetime.
- (2) A maximum rate that may be charged for financing used cars should be fixed by law. This would of course include all charges.

16. Although we have not decided on any specific annual interest rate in respect of credit transactions which would in all circumstances be considered exorbitant, it would appear to be in the public interest to fix some such upper limit. Because of the tremendous increase in recent years in the use of open-end accounts of various types—sometimes called revolving accounts, cyclical accounts, easy-payment or budget accounts—with no statement to the customer of the annual interest rate at the time the purchase is made, and with a minimum effective annual interest rate of some 18 per cent, but no effective ceiling, we urge that immediate consideration be given to this important matter. An accounting system which is clothed in mystery is a potential danger to those of limited income.

17. We recommend that the continuing joint committee of the Senate and the House of Commons which we trust will be set up as a result of the recommendation in the Interim Report of the Joint Committee on Consumer Credit and Cost of Living "to review consumer affairs and the state of the Canadian economy", be specifically charged with assessing contemporary practices and developments in the field of consumer credit. This joint committee would be in a position to recommend to the Government any needed changes in policy or legislation. The current investigation of prices has demonstrated the value of public hearings, stimulating immediate and widespread public reaction.

18. Finally, in order to work towards uniformity in legislation, and to ensure that legislation is developed to complement appropriate federal legislation, and to eliminate abuses and loopholes as far as possible, we recommend that a continuing federal-provincial committee on consumer credit be set up on the technical level.

## CONCLUSIONS

### CONSUMER CREDIT PROBLEMS

The evidence bears out the assumption in our terms of reference that consumer credit is a problem. It is clear that "the operation of Canadian legislation in relation thereto", which we were asked to "enquire into and report upon", leaves much to be desired. We are convinced that consumer credit has become a major industry, standing on its own feet, and in the words of an expert witness, "separate and apart from the sales which underlie it." It has, to a considerable extent, replaced money as the means by which the average man acquires what he needs for daily living and what luxuries he is able to secure. In view of these developments, the former Superintendent of Insurance put the interests of the Committee well in these words: "the various kinds of consumer credit, the sources of it, and especially the cost of it; perhaps, more particularly still, the ways in which the cost can be controlled or influenced by legislation designed to ensure that the public is not charged an exorbitant cost."

### WHAT EVERYONE NEEDS

Although consumer credit is admittedly a problem, it is not a problem for all, and for many it is a great convenience to be able to fulfil present needs from anticipated and fairly certain future income. Individuals in a secure financial position are usually able to get loans

at reasonable rates. They require little protection beyond the normal need of all citizens to be able to assume that dealings are honest and fair, and that all the cards are on the table.

### *Full Disclosure (Information)*

Whether or not he acts rationally on the basis of the facts, when a person is about to enter into financial obligations, sufficient information should be available to make it possible for him to understand what he is undertaking. Every written contract should state the total obligation; how the cost of borrowing is made up (in annual percentage rates as well as in dollars and cents); and in the sale of goods, the difference between the cash price and the price on credit. From the customer's point of view this is essentially what is meant by full disclosure, and it is the purpose of proposed disclosure legislation to bring this about.

But lenders have a different interpretation of the word "disclosure". They profess to favor full disclosure, and they say they are practising it now when they reveal the cost of borrowing in dollars and cents. What is given the greatest attention by credit grantors, and what the finance companies maintain is "the most important public policy issue surrounding the field of consumer credit" is not whether the customer should be given the information he needs to understand the cost of the money to him, but rather "the manner in which the finance charge is disclosed to the consumer." Their real objection boils down to revealing interest in the traditional form of rates, particularly rates per annum. There is some reluctance about revealing monthly interest rates, but that seems to be considered a lesser evil compared with disclosing the annual rate. In any case, the word "interest" is studiously avoided by lenders, who generally decline to break down "service charges" to show interest and other components separately. It may very well be that the cost in dollars and cents is more meaningful to the average man than annual percentage rates, but it is obviously wiser to make available more information than a man needs than to deny the information essential for making a rational choice.

Disclosure laws, first vigorously opposed, are now accepted as necessary to protect shareholders in business. The need for rules of some kind to safeguard the interests of consumers in credit buying is beyond dispute. The sales finance companies object so strongly to disclosing annual interest rates that they would even prefer ceilings such as are fixed by law in New York and California, to disclosure of rates. A spokesman for them said that "realistic ceilings, with a reasonable opportunity for review in the light of changing circumstances, would be a safeguard for

the industry and for the consumer also." A retail instalment sales act which went into effect in Massachusetts on November 1, 1966, provides that retailers will have to disclose to instalment buyers the total cost of credit charged them both in terms of dollars and in true annual interest.

Canadian opinion seems generally to favor overwhelmingly the disclosure type of legislation. The banks are prepared to disclose the full cost of borrowing to the lender, and the revised Bank Act now before Parliament requires them to do so. The big problem is in connection with financing retail credit transactions. Whether the credit is supplied by the retail dealer himself or by a sales finance company or an acceptance company, it is not customary to make clear at the time a retail credit transaction is entered into, the cost in percentage terms of borrowing the money. All but those who are now withholding that information seem to agree that it should be provided to the consumer.

The Royal Commission on Banking and Finance is clear and unequivocal in dealing with this question. They recommend:

"... that it be mandatory to disclose the terms of conditional sales as well as cash loan transactions to the customer. In addition to indicating the dollar amount of loan or finance charges, the credit grantor should be required to express them in terms of the effective rate of charge per year in order that customers may compare the terms of different offers without difficulty."

The Royal Commission does not go along with proposals that revolving credit plans be exempt from the disclosure requirements. On that subject they have this to say:

"While we recognize that there is great difficulty in calculating the exact charge if use is made of a revolving credit, there is no reason why the customer cannot be shown the effective charge if he follows a typical plan. Borrowers may indeed be more interested in the dollar amounts of the finance charges and monthly payments than in the effective interest rate, but it will certainly not do any harm—and may well do much good—to let them know the effective rate as well. The distribution of approved rate books by the grantors of credit would minimize any difficulties of calculation from their point of view."

The Porter Commission goes on:

"Finally, this legislation should impose stiff penalties for excessive charges or failure to disclose. At the least, the lender should forfeit all principal and interest on the illegal transactions. In addition, fines should be imposed and, as now, the authorities should have the power to suspend the licenses of lending institutions in cases of flagrant violation."

Obviously, enforcement would require provision for licensing and inspection of books and premises, somewhat along the lines of the Small Loans administration. The responsible Department would issue a standard form of contract which would be attached to every retail credit sale.

Finance companies and retail dealers calculate their own borrowing in terms of annual interest rates. They are being asked to provide the same kind of information when they themselves are lenders instead of borrowers. The recommendation of the Canadian Federation of Agriculture that disclosure legislation should apply equally to farm supply and machinery companies, is a reasonable one, and we support it.

The truth concerning the cost of credit should be public knowledge, available to all. It is therefore of the utmost importance to prohibit advertising which misleads gullible people into under-estimating the cost.

Full disclosure to consumers of the cost of credit will benefit the business community by increasing public confidence in its integrity. We agree with the representative of the Credit Union National Association that legislation to bring this about would "force the minority, who might be unethical to tell the truth, which means that the honest seller is no longer at a disadvantage." Full disclosure is in complete harmony with the classical free-market theory of economics. If bargaining in the market place is to result in reasonable prices, information provided by the seller or lender must be reliable. A member of this Committee aptly summed up our views in these words: "I think the legislators generally are of the mind that the consumers of credit must be apprised of the cost of credit just as simply and effectively as they can tell now the price of the product itself."

### *Outlawing Unfair Clauses*

Because of the situation peculiar to the sale of goods, which is often further complicated by re-sale of the agreement to pay for them, the bargaining position of the consumer is, generally speaking, extremely weak. He commonly undertakes a water-tight obligation to make payments to an impersonal company which accepts no responsibility to him. The finance company claims to be neither merchant nor money-lender and abdicates all responsibility for the transaction with the consumer. This is hardly cricket when, as a rule, conditional sale agreements contain clauses which are unfair to the consumer. Examples of those in common use are clauses:

1. excluding all warranties and conditions;

2. permitting the seller to assign the agreement to a third person who takes free of all defences that might be urged against the seller;

3. including a promissory note which can be endorsed to a third person, giving him the status of a holder in due course.

Conditions of this kind should not be permitted, whether or not the consumer is presumed to be able to take care of himself in the market place.

#### SOME NEED SPECIAL PROTECTION

Many people of modest means have little or no understanding of business, and they are the ones who are in special need of protection. For them, the temptation of being able to obtain rather easily what is desired now, with a promise to pay later, can be too great, especially if, as is so often the case, they do not understand their commitment. Their need for education in consumer credit is urgent. As in other areas, it takes time for official policies to adapt to social changes, but in our judgment the time has come to take account of the virtual revolution in methods of paying for consumer goods that has taken place since the end of World War II.

#### *Education and Advice*

Assuming that information is made available to all, there will be some who require further protection. What they need is education and advice (sometimes called counselling). The Federated Council of Sales Finance Companies told us of their policy of cooperating in consumer education with high schools, universities, newspapers, radio, television and Better Business Bureaus. The Consumers' Association of Canada and the Consumer Loan Association advocate the teaching in secondary schools of family financing, use of consumer credit and money management. The latter maintain that conscientious lenders now carry the responsibility of assisting and advising unsophisticated borrowers who are not acquainted with business dealings "as to the choice of the best loan for their circumstances."

Since those who sell credit are hardly in an independent position to instruct potential customers, we feel that advice should come from an independent source. It may even be that lenders as well as borrowers could learn something about probable social and economic consequences of credit purchases when unpredictable but not improbable events occur in the life of the consumer. Government has long accepted responsibility for establishing and enforcing standards for products affecting

health and safety. Now the need for advice concerning buying and budgetting is equally urgent. The time is clearly ripe for development of a broad program of consumer education.

Everyone should be able to rely on the truth of statements of fact made in advertising, and sponsors of false advertising must be firmly dealt with. But the advertiser, whose business it is to persuade, can hardly be called to account for selecting from his own point of view the information he uses. Neither can he be expected to confine himself to the facts alone. There must be other sources to which the consumer can look for purely objective information and advice.

#### GOVERNMENT REGULATION TO PROTECT THE WEAK

Government regulation has long been applied to banks. In the twenties large consumer loan companies were regulated to some extent under private acts. In the thirties the need to regulate all small loans had become apparent, and this resulted in the Small Loans Act. In spite of opposition from some money-lenders, it received the support of a substantial part of the industry, and today it is unanimously praised by those in the business, whose assistance in enforcing its provisions is acknowledged by the administrators. Representatives of the consumer loan companies told us that before the Small Loans Act was passed the bargaining position of the lower-income borrower was weak.

The Small Loans Act has not been revised since 1957. In the meantime the cost of goods and services has greatly increased, and the value of the dollar has dropped, making it necessary to reconsider the area within which this strengthening of the bargaining position of the consumer is essential in the public interest. It is where the bargaining power between two parties is not equal that, in the words of Professor Ziegel, "the legislature is more than justified in intervening . . ."

#### CONSOLIDATION OF DEBTS

In recent years the average size of loan made by consumer loan companies and money-lenders has been growing, and the high proportion of loans used for what is known as consolidation of debts or refinancing gives rise to some misgivings. Consolidation of debts is being widely promoted through advertising, and a spokesman for lenders said: "I very definitely feel that the consolidation of debt is one of the most important services that we perform." We do not question the need of

those who find themselves with debts beyond their ability to cope, for a means by which they can pay them off in an orderly fashion within some foreseeable time. But ability to do this becomes highly doubtful if the process of refinancing involves heavy additional interest charges. That is apt to happen if the system is in control of the creditor. The Nova Scotia Royal Commission on the Cost of Borrowing Money, Cost of Credit and Related Matters, noted that those on the books of finance companies—and this is related to the large number who consolidate or refinance—are likely to remain on the books for seven years. Seven years is a long time in the life of a family, and it is time enough to take children through the most critical period in their lives. But what is the alternative?

#### ORDERLY PAYMENT OF DEBTS ACTS

The Family Bureau of Greater Winnipeg dramatically illustrated the devastating effect on a family of medium income with six children and heavy debts which they had been paying off for two years at \$60 a month when the Supreme Court of Canada declared the Manitoba Orderly payment of Debts Act unconstitutional because it dealt with bankruptcy legislation, a federal matter. When this happened the man's wages were garnisheed. As a result he lost the job he had held for five years, his wife suffered a mental collapse and entered a psychiatric institution, and the whole family was reduced to public assistance. The brief presented to us by the agency urges the Federal Government to amend the Bankruptcy Act "to enable re-establishment of an Orderly Payment of Debts plan in this province, and the enactment of similar legislation in other provinces." We are pleased to report that a bill to that effect, which originated in the Senate, passed the House of Commons, with amendments, on June 20 last. It contains a provision which commends itself to us, laying down special conditions that must be fulfilled if a consolidation order does not provide for payment in full of all the debts within three years. Setting up this specific three-year goal should help to maintain the morale of the debtor as well as the patience of the creditor.

#### CONDITIONAL SALE AGREEMENTS

We are equally concerned about a related problem, and one that is growing in importance. It has to do with the large part of the money owing by consumers today that results from purchase of goods, with

debts accruing either to retail dealers or to third parties who buy conditional sale agreements, known in the trade as "paper". Lending by retail dealers or by sales finance and acceptance companies does not come within the scope of the Small Loans Act, and with a few exceptions in certain provinces, it can be said to be unregulated. We learned that complaints received from the public by administrators of the Small Loans Act are more likely to arise out of these conditional sale agreements over which the Department has no say, than from the small loans over which they have jurisdiction. When he enters into a conditional sale agreement, the weak bargaining position of the consumer today is somewhat analogous to that of the borrower of money before the Small Loans Act was passed. So feeble is his bargaining power that it is now a regular practice to have him sign a waiver of his rights under the law to assurance that the goods are "merchantable" and "fit for the purpose for which they have been bought." The purchaser's obligation to pay for the goods goes on whether or not the merchandise is of any use to him. This is particularly hard on buyers of used cars which break down on the way home from the used-car lot. Since this Committee is trying, in the words of one of our members, "to make the game of shopping a fair one", something must be done to shore up the weak bargaining position of the purchaser of goods on credit.

There appears to be general agreement that the consumer needs more protection in the modern world of credit which is now so complex that it is beyond the comprehension of the common man who is among its best customers. The question is, then, what is to be done, and by whom.

#### HOW PROTECTION DEVELOPS

In the four countries whose legislation for the protection of consumers Dr. Ziegel<sup>1</sup> studied, — Canada, U.S.A., England and Australia — the development has been uneven, but he notes that "the pattern of evolution is similar in all four countries."

1. Initial concern is protection of the buyer's equity.
2. Prohibition or regulation of unfair contractual clauses — especially concerning warranties and conditions.
3. Belated realization of importance of regulating financial terms of the agreement. Hence:

- (a) Disclosure requirements,
- (b) Limitation of finance charges, and

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<sup>1</sup> See footnote on page 45.

- (c) Statutory recognition of buyer's right to rebate in case of repayment.

He has stated that "... the provinces between them now have more than sufficient legislative experience in all spheres except possibly that of regulating finance charges and maintaining licensing requirements (and here the federal small loans provisions should prove helpful) to provide the basis for a comprehensive uniform act. . . . Two provinces, Alberta and Quebec, have disclosure requirements, but only one, Quebec, attempts to regulate minimum down payments and maximum maturity rates directly. Alberta and Saskatchewan, however, in a very real, if heterodox way, do so indirectly, in so far as they eliminate the seller's right to sue for any deficiency after repossession. Quebec, again, is so far the only province which has shown any appreciation of the importance of prohibiting excessive finance charges . . ."

#### REVOLVING CREDIT

Twenty years ago more than 60 per cent of all retail sales were for cash, often involving a discount to the purchaser. In department stores the percentage of cash sales was even higher than in other retail outlets. This pattern of trade continued throughout the forties, but in the fifties there was a noticeable change, until today some 40 to 50 per cent of department store business is done on credit. Increased use of retail credit is largely attributable to development of the open-end system of accounting generally known as revolving credit, but also called "cyclical accounts," "budget" or "easy payment" plans — a system which has found favor with younger families and is associated to a considerable extent with sociological changes which have been the subject of wide comment. The post-war pattern of younger marriages — with home ownership and a heavy mortgage even for families of limited income, and development of suburban shopping centers displaying a tempting variety of consumer goods — is obviously fertile soil for a system of buying which separates the pleasure of acquisition from the pain of payment.

An official of Simpsons-Sears informed the Committee that 85 per cent of their credit business is now done on the revolving account system. Revolving credit is much less important for Eaton's and the Hudson's Bay Company, but both companies have developed similar plans. Some other retail chains, known as junior department stores, already do a large part of their business on revolving credit, and the

system is spreading. We therefore considered it of prime importance to assess whether or not this development is in the public interest.

We have carefully weighed the arguments for and against the system, and because we are informed that its very existence would be placed in jeopardy by requiring disclosure of service charges to the customer in annual percentage rates, perhaps it is time to consider whether or not the advantages outweigh the disadvantages.

Representatives of the Retail Council of Canada maintain that this method of selling is a service to their customers; that they are not interested in it as a revenue producer, but only as a means of stimulating sales and "as a basis of achieving economy in the use of credit staff." The main arguments advanced in favor of the system by businessmen who use it or participate in its financing, are these: (1) that the widespread use made of revolving credit demonstrates that it is what the customer wants; (2) that it is so organized as to reduce to a minimum the cost of administration; (3) that it provides an important stimulus to sales, increasing the business of the establishment and therefore helping the economy; (4) that "the traditional way" of doing consumer credit business should not be lightly tampered with "except when absolutely necessary to protect the public against abuse or unconscionable charges."; and finally, (5) that, "Legislation which would require the expression of simple annual interest rates on all types of credit account would require retailers to abandon cyclical type accounts and probably bring about severe repercussions on the national economy."

There seems to be no doubt that the revolving account system, which gives the customer possession of the goods without any discussion, let alone revelation, of the cost of "credit service", can cause no hardship at that time. Whether or not he would choose to wait till pay day if he understood that he would be paying at least 18 per cent per annum and probably a much higher rate, for the privilege of buying on credit, is another question. A spokesman for the Retail Council of Canada told us that, "Control of the amount borrowed and the customer's mode of operation of the account is firmly exercised by the retailer." The Council's brief puts it this way: "... the authorized balance is controlled by the good judgment of the authorizer." The customer learns the details of his commitment not at the time of taking possession of the goods but at a later and unspecified date, when the bill comes from the accounting department. The game appears to be one in which all the cards are in the hands of one player.

We understand that the saving in administrative costs results from making the best use of staff by spreading the work of servicing the

accounts over the whole month. This involves billing the customers, not at the end of each month, but according to the company's system of filing accounts, usually alphabetically by customers' names or addresses. This may very well be convenient for the company, but as far as the customer is concerned the result is that if he happens to make a purchase shortly after the day on which his account has been "serviced" the cost of "service" and the change in his overall account will not be brought home to him until several weeks later.

The rapid rise in credit accounts of the large department stores since the institution of the open-end accounting plan supports the view that the system does stimulate sales, but what part of these purchases would in any case be made later for cash, or would be made in other retail stores, is not clear. There would inevitably be a tendency for customers to concentrate their buying in outlets where they had accounts of this type, perhaps also to pay less attention than formerly to comparative shopping. These considerations raise questions about the impact of the system on the competitive position of other retailers, and on the whole economy.

Compared with the age-old and universal method of showing charges for the use of money as interest rates—a method now readily abandoned by many — the relatively new and evolving plans collectively termed "revolving credit" can hardly be called traditional. We have been reminded that most laws which change the status quo are opposed by a section of the community. But the fact is that in a market economy the status quo is undergoing continual change by forces other than the law. It is quite legitimate for various segments of business to devise methods which will increase their own advantage. Many examples come readily to mind. The trucking industry and the airways have cut into the business of the railroad. There is a constant battle in packaging among the paper industry, various metal groups, glass and plastics.

Confining our attention to the field of consumer credit, we see that not only is the consumer credit pie growing, but shares of different interests are shifting, and "outsiders" are edging in. More companies are financing their own credit sales rather than selling their paper to finance companies. An official of one of the largest department stores admitted to us that the credit business "reflects a profit." We were told by various witnesses that the purchase of appliances reduces the amount of money spent on services; that the move by finance companies into car rentals has cut into car sales; that some builders are selling stoves and refrigerators in a package deal with new houses, thus cutting out both the retail dealers in these goods and the finance companies. Changes of this kind

are bound to result in gains for some groups at the expense of others, and those who lose out must seek new areas of business in the same way as was done by the consumer loan companies after the 1956 amendments in the Small Loans Act.

Smaller businessmen can be seriously affected by innovations instituted by powerful corporations with a view to increasing their own share of the pie. In those circumstances they are in no position to protest as they have a right to do if the power is exercised by government. They can ask that any public regulations be applied equally to all. This is in fact what representatives of smaller businesses have asked for.

Should disclosure legislation necessitate abandonment of the cyclical type of account, the question as to what effect this would have is still open to argument. It would undoubtedly cause some shift in buying and lending patterns. Professor Donald McGregor of the University of Toronto told the Ontario Committee he thought shifts resulting from disclosure legislation would not be major shifts. The Confederation of National Trade Unions believes revolving accounts to be such a menace and an erosion of the purchasing power of consumers, that they should be abolished. That exemption from general regulations of certain types of accounts could open the door to abuse is implied by the unanswered question put by a committee member to a spokesman for the Retail Council of Canada:

"In the event that there was legislation proposed that made disclosure mandatory for the non-cyclical and non-open-end accounts, is there any definition that you can suggest to the Committee as to the type of accounts which should be exempt from disclosure which would not lend itself to abuse? Naturally, if there is disclosure in simple annual interest for one group and not for another, every person trying to abuse the laws would strive to get into the group where disclosure is not necessary."

The real problem seems to be that there is no specific and uniform definition of revolving or cyclical accounting, the method being adapted to suit local circumstances and individual firms. The definition evolved in Alberta was "continuous deferred payment plans", but a spokesman for the Retail Council of Canada was unable to suggest a solution for the problem of possible abuse through changing the form of the plan.

Revolving or cyclical accounting has to date been little used by small retailers, and it presents what appears to be the greatest conflict of interest in the retail trade, perhaps one of the important reasons for the setting up of the Retail Council of Canada in 1963 to speak separately from the long established Retail Merchants Association.

This system of accounting — if revolving credit can be called a system when it appears to be a generic rather than a specific term — has been a source of much confusion and misunderstanding. The customer is in the dark as to the carrying charge on his purchase; the general credit manager for Simpsons-Sears Ltd., Toronto, spoke of “the further complications in the retail department store business caused by what we call ‘add on’ . . .”; and development of this system has even made it necessary for the Dominion Bureau of Statistics to discontinue publication of meaningful and detailed data on consumer credit which it formerly reported.

Coming events were already casting their shadows before in a DBS report on retail credit for the fourth quarter of 1950:

“A new form of credit known as ‘revolving credit’ has been expanding for some time past. Because of its increasing importance and its inclusion in the new Consumer Credit regulations, an attempt has been made to obtain consistent reporting of this type of credit. In this report, it has been included with the charge or other credit category.”

But the system spread and took many different forms, and the task of the DBS became more difficult, until a decade later all attempts to obtain consistent reporting had been abandoned and retail credit statistics were thenceforth lumped together under “total accounts receivable”. No longer were instalment accounts distinguishable from charge accounts.

So complicated is this method of granting credit that a Retail Council of Canada representative said “. . . we cannot conceive of any form of disclosure which can be devised to handle our cyclical and add-on type of accounts.” His colleague agreed with the suggestion of a Committee member that, “It probably would be possible to figure an interest rate with a computer,” adding, “but whether we could afford to do that is another question.” The argument against requiring disclosure of interest rates charged on this type of account was summed up by a then Co-Chairman: “What you are saying is, in effect, if there is legislation in this regard you will have to change your accounting methods. That is all you have said, as far as I can see.”

It appears to us that a type of accounting which is admitted to be incompatible with disclosure legislation and which makes it impossible for the retailer to tell the customer the interest rate, is hardly likely to enable the customer to figure that out for himself. Much less can he be expected to do any comparison shopping between different merchants, or to consider whether it would be to his advantage to obtain the money

from another source. When interest rates are surrounded by mystery, the Canadian Federation of Agriculture reminded us that "unwise and damaging purchases are made by those who cannot really afford them." We have come to the conclusion that to make an exception from general regulations for a type of account which is so vaguely defined, and yet is being used in a growing number of firms, would be opening the door to confusion. There is great danger that this system will tempt the unsophisticated and those with small incomes to pile up debts beyond their ability to repay. We support the view advanced by most disinterested parties that we should confine ourselves strictly, if at all possible, to the annual basis. We note that Mr. Irwin, the financial consultant, shared that opinion, although he warned that unless you get acceptance from those using revolving credit "they can foul it up pretty well, too." We express our confidence that reputable business firms will act in an ethical way.

#### CONSUMER BORROWERS NOT ALL IN SAME POSITION

For many — probably most — Canadians, all that is needed to put them in a bargaining position roughly equal to that of the lenders is access to objective and unbiased information. These are the people who, with all the cards on the table, and with access to various sources of credit, can do their own shopping. But investigations in the United States have shown what is no doubt true here too: that a section of the consumer public are not comparison shoppers, and they are likely to be individuals with the lowest incomes. It is they who "often pay the highest interest rates and are in the greatest need of protection."

Most comparison shoppers fall into the group that has aptly been called the unrationed minority. A recent study made for the National Bureau of Economic Research, and brought to our attention by more than one representation, suggests that there are two kinds of consumers:

1. The unrationed minority—those who choose to pay all or part in cash or to accept less credit than is available to them from primary lenders. They pay lower rates than rationed consumers and the limited amount of rate information that consumers have is pretty well confined to this group.

2. Rationed consumers — the majority, whose marginal borrowing cost is in excess of the going rate of primary lenders. The only alternatives open to this group are paying the going rate or doing without the commodity.

Rationed consumers, when they are in desperate need of a loan, meet the lender under such unequal conditions that if he is unscrupulous he is in a good position to press his advantage. But even rationed consumers sometimes take out loans for purposes that can hardly be considered essential, and this may be done without consideration or understanding of the consequences. It was represented to us by those whose work brings them in contact with lower-income families that if the true cost of borrowing had been clearly explained in advance, some of the tragedies due to debt would never have developed. This view is supported by empirical investigation of the National Bureau of Economic Research which found the strongest response to acquisition of knowledge of finance rates was "a reduced willingness to borrow among households in the rationed group."

Fortunately, most rationed consumers are above what could be called the poverty line, and would no doubt be able to manage their finances, including some credit buying, if they were in possession of all the facts necessary for making a sensible decision. These are the people who will benefit from disclosure by becoming comparison shoppers.

But we are left with the problem of the minority of rationed consumers who, with all the necessary information, and understanding that their income does not allow for any commitments to pay the high cost of the credit available to them, are in such desperate need of a loan that they will agree to the impossible. The situation of these people has given us cause for concern, and leads us into consideration of how this problem can be solved.

#### THE GAP IN THE CREDIT PICTURE

In view of the importance of credit in business today, various methods are used to ensure that sound credit standards are maintained, and that credit is available at reasonable rates to meet legitimate needs of business as well as of private borrowers. Except in times of emergency, when the national interest is involved, maintenance of sound credit standards is generally left to the judgment of the lenders, the theory being that it is in their own interest to curb unwise use of credit. It has been argued that this is not always a safe assumption, when the salesman has his eye on filling a quota, when collection of the debt is separated from sale of the goods, and when any risk to the lender is virtually eliminated by harsh enforcement methods. That question is discussed elsewhere. Here we are considering measures to ensure that necessary credit is available.

The monetary power of the Bank of Canada aims at seeing that overall, the credit for business is sufficient to meet the needs. The Bank uses its power to influence the interest rates, thereby increasing or curtailing the money supply as seems advisable. The Bank's actions are also reflected to some extent in policies of commercial banks in dealing with their consumer borrowers. And when money will bring high interest rates elsewhere, life insurance companies are more reluctant than usual to expand their low-interest lending to policy holders. In any case, policy holders who are family heads generally resist the idea of encumbering the protection they have provided for their wives and children in case "anything should happen" to them.

But it is well known that sources of credit which are sensitive to the nation's money policies are not open to the low-income person who is without assets to pledge as security. He must rely for cash borrowing on consumer loan companies and money-lenders — institutions whose business expands when money is otherwise hard to get. When interest rates are high enough, there are sure to be willing lenders, and a tight-money period is precisely the time when numbers grow of those who are anxious enough to borrow that they will agree to almost any conditions. The only alternative generally open to the average man is to buy on credit, with the debt accruing to the retail dealer or to a finance company. These are expensive methods of borrowing, and sometimes the rates are exorbitant. Furthermore, no matter how desperate the need, there is always a residue of individuals who are turned down by the consumer loan companies; there is also a limit beyond which it becomes difficult for some to get retail credit.

In addition to those who, because of their personal situation are considered by the commercial lender to be too great a risk, there are others whose requirement for money, theoretically regulated under the Small Loans Act, happens to fall into what lenders consider "a non-profit area", roughly defined as between \$1,000 and \$1,500. Some lenders refuse these loans, and it is admitted that this area is not now adequately served. The danger is that in order to obtain the money they need, borrowers will be driven to assume a larger debt, bringing them beyond the upper limit of protection under the Small Loans Act.

When a man applies for a loan somebody else decides whether or not the loan is granted. If the decision goes against the applicant, what then? Several committee members raised the issue of the need for some alternative source of credit at reasonable rates for those who are denied a loan when they really need it, and perhaps also for those whose

business is least profitable to lenders, and the cost of carrying which pushes up rates for other borrowers.

### *Precedents for Government Action*

Businesses operating for profit can hardly be expected to go far beyond what they regard as economically feasible, for the sake of fulfilling a socially desirable need or one that is in the national interest. The Government has long recognized this, and has stepped in to fill gaps of this kind, making available loans at low interest rates, either by guaranteeing loans made by traditional lending institutions or by setting up agencies which make loans directly. This is sometimes spoken of as, "Increasing the effectiveness of monetary action through ensuring the availability of credit. . ." For more than two decades the Industrial Development Bank has provided capital-type loans to small and medium sized firms. The bank is authorized to lend or guarantee loans of money to persons or corporations when

... "15 (b) credit or other financial resources would not otherwise be available on reasonable terms and conditions. . ."

Under the Farm Improvement Loans Act, in effect for roughly the same length of time, the Government guarantees farm improvement loans, provided that certain conditions are met. The maximum loan, originally \$3,000, has been successively raised until it is now \$15,000. The Veterans' Business and Professional Loans Act of 1946 provided for loans up to \$3,000, and guaranteed loans for prairie farmers — with the original maximum of \$1,000 now raised to \$3,000 — are available under the Prairie Grain Producers' Interim Financing Act, 1951. The Prairie Grain Loans Act (1960) guarantees loans up to \$1,500 to actual producers. For more than thirty years there has been legislation providing mortgage loans to fishermen, and since 1955 the Fisheries Improvement Loans Act has made available government guaranteed loans of up to \$4,000.

Fishermen's loans may be obtained from banks, credit unions, caisses populaires or other designated cooperative credit societies. Most of the other guaranteed loans are made through chartered banks, with the government, as a rule, undertaking to make up any losses as well as to pay the cost of administration.

The Farm Credit Act of 1959 set up the Farm Credit Corporation, which makes low-interest loans to farmers whose farms are mortgaged "and whose experience, ability and character are such as to warrant the belief that the farm to be mortgaged will be successfully operated."

In 1960 the small businessman was added to the list of Canadians eligible for a guaranteed government loan. Under the Small Businesses Loans Act loans up to \$25,000 may be granted to "small business enterprises". The Act defines a small business as one with gross revenue not over \$250,000.

### *Social as well as Economic Considerations*

Many of these government guaranteed loans are provided for the purpose of expanding or strengthening the economic well-being of the borrower and indirectly of the Canadian economy. But an interesting example of taking into account social as well as economic considerations — specifically, the credit needs of home and family — is provided by the full title of the Farm Improvement Loans Act, 1944-45: "An Act to encourage the provision of Intermediate Term and Short Term Credit to Farmers for the Improvement and Development of Farms and for the Improvement of Living Conditions thereon". Even earlier, in 1937, the Home Improvement Loans Guarantee Act made it possible under certain conditions laid down in the legislation, to borrow up to \$2,000. The upper limit for home improvement loans is now \$4,000.

For more than 20 years low-interest loans have been made to home-owners under the National Housing Act. But consumer-borrowers, who are the particular concern of this Committee, are mainly urban dwellers, and a high proportion of them are wage-earners. Because of the vulnerable position of low-income people in need of credit, we were impressed by the findings of the Poapst consumer survey for the Royal Commission on Banking and Finance that those who suffer from intermittent unemployment are more likely to be involved in instalment debt than in mortgage debt. Undoubtedly a high proportion of low-income families are tenants. These people do not benefit by the help given to home-owners under the National Housing Act; nor do they qualify for loans under the Home Improvement Loans Guarantee Act. In any case, that Act does not provide for loans to cover appliances and furniture, essential equipment for the modern household.

### *Lending Policies of Private Businesses and Government Institutions*

The main difference between lending policies of private business enterprises and those of government institutions is that the former are naturally interested mainly in profits, whereas the latter make loans for clearly defined purposes considered to be economically and socially

desirable for the individual or company as well as in the general public interest. Perhaps we could adopt a phrase from the credit unions and extend to a wider group of private consumers the privilege which government has long accorded to specified categories of Canadians, of securing at reasonable rates, loans guaranteed by the Government, to be used for "provident and productive purposes". This credit would not be available to acquire minks and diamonds, or for travel to far-off places, but only for purposes related to the well-being of home and family. A high proportion of borrowing by the hard-pressed low-income wage-earner would clearly come within this definition.

Consumer lending companies take the position that borrowers "who lack readily marketable assets and who are in a relatively weak bargaining position need the services provided by responsible lenders under a suitable regulatory law." We do not quarrel with this, but we believe the time has come when that service must be made available to this vulnerable group not only by the private institutions with which they are now dealing, but by an independent source which would provide an alternative for those who are turned down by commercial lenders. This service element would include much-needed advice concerning the meaning and the cost of credit. The evidence convinces us that the risk of losses on the loans would be very small, and the public interest would be served by preventing low-income families from becoming enmeshed in debt from which they could never hope to extricate themselves unaided.

Commercial banks are already providing consumer credit on a large scale to borrowers who are considered good risks. They also make loans to individuals who might not otherwise qualify, on condition that the Government guarantees to recoup any losses from the Consolidated Revenue Fund. We believe they could be persuaded, with the same kind of government guarantee, to serve the lower-income consumers we have in mind.

If we were to make it possible for farmers and city dwellers alike to borrow at reasonable rates for what could be regarded as necessary expenditures related to the satisfactory functioning of the home, in the same way as we do now for home ownership or farm implements, that could hardly be regarded as establishing any new principle. It is now a matter of official concern to help preserve and strengthen family life, and specifically, to raise the standard of living of families which have failed to share in our general affluence. The strains on family ties that result from overwhelming debt are well documented.

But what makes our suggestion doubly attractive is that it would benefit lenders as well as borrowers. Various witnesses have suggested that in the lending business today, major loans more or less carry the cost of serving smaller borrowers. If lenders were to be relieved of the bulk of both high-risk and low-return customers, it should be possible for them to reduce somewhat the rates charged to their other borrowers. A representative of the consumer loan companies agreed that this was a reasonable hope, although he added a note of caution: "One would have to look at it very carefully."

We have considered various ways of determining who should be eligible for government guaranteed consumer loans. Although the extent of a man's indebtedness is often related to the amount of his income and assets, that is not always the case.

### *Proposal for Filling the Gap*

A spokesman for the consumer loan companies suggested that the dividing line between their business and that of the commercial banks is the income of the borrower rather than the size of the loan, implying that those whose incomes do not meet the bank's requirements must go to consumer loan companies. The immediate and urgent concern of this Committee is an even lower income group — those who do not meet the requirements of the consumer loan companies, or, if they do, they are served at the cost of higher rates for other borrowers. Our suggestion is therefore that government guaranteed loans at a reasonable interest rate be made available to the lowest income groups as an alternative to borrowing from commercial lenders.

It is not easy, of course, to draw the line between those who would be eligible to use a public facility of this kind and those who would not. In introducing the recent amendments to the National Housing Act, the Minister of Labour said the government is "trying to help those people in the lower and medium income brackets." He added that the new provisions of that Act will benefit mainly "the group earning \$5,000 and over". Taking into account today's economic conditions, we believe it would not be unreasonable to make this alternative source of consumer credit available to all families whose annual income is \$4,000 or less. The maximum amount that could be borrowed under this scheme would be \$1,500. The responsible government agency would provide information and advice to all who wished to have it.

Incidentally, the proposed government guaranteed loans should greatly assist current efforts to establish Indian families in the mainstream of Canadian life. Those responsible for helping them to move

from the reserves to the regular working force have noted that credit, which may very well be essential if the transition is to be made, is usually denied to Canada's original inhabitants.

#### USED CARS—A SPECIAL CASE

When a representative of the Consumers' Association of Canada was asked where their members feel that the greatest abuses in consumer credit lie, she answered: "I think there are very often abuses in the sale of used cars." Evidence produced in some provincial investigations confirms our impression that there is no group of consumers with so many unhappy purchasers who have made considerable sacrifice to gain possession of an article which they sorely need and which turns out to be useless. Yet no redress for their grievances is available.

Those who buy new cars can learn a good deal in advance about comparative performance of different makes. In any case they are protected by the maker's warranty, and his desire to maintain the reputation of his product. It is fairly safe for the buyer of a new car to make his selection on the basis of appeal to the eye of various designs and colors — factors that are usually stressed by car dealers. But the purchase of a used car is a different proposition. The buyer is often entirely dependent on the dealer's word concerning the age and history of the car, and he must put his faith in the number of miles recorded on the speedometer.

The most important question, of course, is whether the car will go. No matter how attractive its appearance, a car that will not move does not solve a man's transportation problem. When this situation develops after he has signed a purchase agreement as well as a promissory note independent of the agreement, the buyer may find himself liable for paying over a period of months or even years, for a vehicle that never takes to the road. And he is apt to be making these payments, not to the one who sold him the car, but to the purchaser of his agreement or promissory note. We learned that "it is the almost invariable practice that the buyer is required to waive the rights which the common law and the various provincial sales of goods acts confer on him with respect to the quality and fitness of the goods he purchases."

Even assuming that the car is roadworthy, as most cars undoubtedly are, it is not unusual for the purchaser to commit himself to pay more than he can possibly afford out of his income, with the result that he falls behind. When that happens, a man is apt to find that he has agreed to provisions in fine print that are very harsh indeed.

Recognizing the importance of the motor car industry to Canada's economy, we nevertheless believe that the used car business has become a social problem. A member of the Committee who is president of a social agency told us that his agency is sometimes called on to supply food for children at the same time as their poor father is obliged to keep up payments on an old car. "So this organization, whose object it is to help poor people," he said, "in reality helps the finance companies."

The reasons why the financing of used cars is a special problem are: (1) that people with small incomes are more likely to buy used cars than new cars; (2) that finance charges on used cars are considerably higher than on new cars; (3) that a high proportion of used cars are repossessed, due in some cases simply to mismanagement on the part of the would-be purchaser, but excessive finance charges no doubt help to make the size of the payments unrealistic in relation to the income of the debtor; (4) that a used car may be the only means of transportation to and from work, in which case repossession is a calamity for a wage-earner and for the family dependent on him; (5) that when the used car is not as represented, sometimes so deficient that it does not serve the purpose of transportation, the purchaser may be forced to continue making payments to the buyer of a conditional sale agreement who accepts no responsibility to him; (6) that there is no limit to the charges that can be made under the guise of reconditioning it, and this may very well exceed the value of the vehicle. We were informed of a case recorded in a Montreal court where a truck purchased for \$650 and repossessed one week later, was resold for \$25.

It is clearly in the public interest to provide some protection to used-car buyers, perhaps to make it possible for them to do what is commonly done by purchasers of new cars — borrow money and pay cash. We believe that one of our major recommendations will take care of this problem by making credit available at a reasonable rate in the particular and urgent situation when the car is needed for transportation to work. The individual would then be essentially in the same position as a member of a *caisse populaire* whose car can be financed altogether by regular payments at reasonable rates of interest and with no lien attached to the car. Furthermore, our recommendation that a maximum financing rate for all used cars be fixed by law (as is now done in New York State for both used and new cars) should help to make dealers more careful in selecting their purchasers. Because of the many possibilities of misrepresenting the age and condition of a used car, introduction of an identification system such as is used in Britain and in some parts of Canada, would make it possible to check in a public

place, the history of any car offered for sale. This should not be an insuperable problem in the computer age.

#### SUMMARY

The most widespread hardships for debtors today arise out of retail credit transactions rather than cash borrowing, and troubles are particularly common in connection with the purchase of used cars. Buying on credit has become a well established practice for all income groups. It is a perfectly legitimate practice, one that stimulates sales and makes it possible for many to enjoy now amenities which they are well able to pay for later in instalments. Undoubtedly there are credit purchases made which are unnecessary and unrealistic, but the same could be said of cash purchases. In our society we are free, as individuals, to use our own resources in any way that gives us the greatest satisfaction, and the Committee has no quarrel with that.

What does concern us is the consequences for themselves and for society when unforeseen circumstances make it impossible for one who has committed himself to credit payments to meet these obligations. Unforeseen circumstances can arise for two main reasons: (1) because the consumer did not understand what he was undertaking, or (2) because his personal situation has changed. When a small income is committed beforehand, a period of illness or unemployment, or even the need to repair the home or replace an expensive item of household equipment or clothing, can completely throw out the family budget. As is often the case, if remedies are to be effective and to prevent recurrence of trouble, they must take into account the root causes. In arriving at our final recommendations we have kept this in mind.

### III

## GROWTH OF CONSUMER CREDIT

### INTRODUCTION

To pay for the use of money is so much taken for granted today that it may come as a surprise to some that prior to the middle of the sixteenth century it was generally regarded as a serious evil to take any interest, whether exorbitant or not. Up to that time clergy of all denominations condemned usury; the law punished it with imprisonment and forfeiture of principal and interest.

This attitude was based on two thousand years of church and moralist writings. Money was regarded as a medium of exchange. Like any other article, when it was loaned it was absolutely under the borrower's control. We learned that as late as 1572 a lawyer and moralist, Thomas Wilson, wrote a *Discourse Upon Usury* which he declared to be nothing but "a fraudulent and crafty stealing of another man's goods."

In those days of the relatively simple village economy large amounts of capital were not generally required. Customers of the local money man were mainly peasants, artisans and small merchants who fell upon lean times. Proverbs surviving from that period reflect the social climate of the day: "Better buy than borrow", "Better give a shilling than lend a half crown." In the latter part of the sixteenth century the whole situation changed; with the beginning of the modern economy as we know it came the need for more capital.

Changing economic conditions brought about a change in public attitudes, with resulting pressure for institutional changes. As is often the case, it took some time for the law to catch up with public opinion, and there was a period when practice was removed from theory and principles. Attempts were made "to charge interest indirectly or under another name or through some device."

When the Low Countries began to permit the charging of interest up to 10 per cent the competitive position of English trade was affected.

Although the Canon laws were gradually relaxed to permit some exceptions, the big turning point came in Britain in 1571 when Parliament passed an act permitting interest up to 10 per cent. This marked abandonment of the traditional attitude that any profit on money lending is usurious and wrong.

Recognition that interest can be reasonable, changed the meaning of the word "usury" which is commonly understood now to refer to money-lending at exorbitant rates, especially at rates higher than those fixed by law. Interest at a reasonable rate is universally accepted as entirely proper. As a member of parliament put it in 1571, the distinction thereafter was between "biting and oversharpe dealing" and "a reasonable maximum interest rate set by the State."

Nowadays, for reasons discussed elsewhere, those borrowing money, particularly individuals operating as consumers, are concerned not only about interest rates, but equally — perhaps more — about other charges that become part of the cost of the loan.

### WHAT IS CONSUMER CREDIT?

As in all areas of study, there is some difficulty about exactly defining consumer credit, but a reasonable definition appears to be, as the Bank of Canada representative put it: "credit advanced to individuals to finance their expenditures on goods and services as consumers." This would exclude credit extended to businesses, borrowing by individuals to finance housing (capital expenditures) and credit used to acquire financial assets such as stocks and bonds. Consumer credit is used to finance things that by their nature have a short life as well as things that will wear out "in a reasonably short time," including furniture, and — an important part of the picture today — motor cars. Articles of this latter kind are what are known as durable goods as opposed to non-durable goods.

Although the granting of credit to consumers in one form or another has a long history, instalment credit on a large scale seems to have grown up with the development of relatively high-value durable goods. It is particularly associated with wide use of the motor car. Parallel with the growth of consumer credit was development of institutional arrangements to facilitate it. Another factor responsible for the increase in consumer credit has been a change in attitude to the incurring of large debts for consumption purposes. And underlying the whole development has been expansion of consumer incomes.

Consumer credit is mainly of two kinds:

1. Cash loans, and
2. "transactions relating to the sales of goods or services on some kind of time-payment plan."

### TIME PAYMENT PLANS

The idea of selling on time is not new. It has been known in Canada since 1850. Many of the earliest time-sale agreements covered the sale of horses — the equivalent of the modern motor car. But much the older form of credit is the cash loan, where the primary transaction is the borrowing of money. This explains why legislation developed mainly to regulate that kind of business.

In recent years, particularly since World War II, there has been a tremendous upsurge in the form of credit where the primary transaction is the purchase of goods. This kind of credit also gives rise to debt on which interest must be paid. The subject of interest as well as the wider cost of providing credit to consumers have become matters of public concern.

Needless to say, effective demand for the purchase of goods on credit was low in the thirties due to unemployment, and in the war years it was curbed in the national interest. Before World War II it was mainly the larger items of durable goods that were bought on "time or instalment payment terms". When the family needed a piano, a refrigerator, or a large piece of furniture, and they did not have ready money to pay for it, it was bought "on time". It was customary in those days for cash buyers to be given a discount. Then the practice grew up of putting part of the charge for instalment service on the price of the article, with the remainder of the cost a direct charge — perhaps as low as 5 per cent — for "instalment terms".

### THE SITUATION TODAY

Today there is seldom any discount for cash. The usual practice is to state a cash price along with the charges for "instalment service". In addition, new types of accounts have been developed to allow for purchase of a wide variety of consumer goods, including both the smaller durable items and also non-durable goods, that is those designed for immediate consumption.

Except for a set-back in 1951 when restrictions were imposed during the Korean War, consumer credit outstanding has risen steadily from \$678 million in 1948 to some \$7,000 million at the end of 1965. Table 1 shows that the rise has continued not only in absolute terms but also as a ratio of the gross national product as well as of personal disposable income. Throughout the fifties it was customary to compare our situation favorably with the United States. In that country, where consumer credit is more highly developed than anywhere else in the world, the ratio of consumer credit was always higher than ours as measured by either of these indices. However, since 1961 we have surpassed the United States both in our ratio to GNP and to personal disposable income.

TABLE 1  
CONSUMER CREDIT OUTSTANDING  
RATIO TO GNP AND TO PERSONAL DISPOSABLE INCOME,  
CANADA AND U.S.A., 1948-1963

Year	Ratio to GNP		Ratio to Personal Disposable Income	
	Canada	U.S.A.	Canada	U.S.A.
1948.....	4.3	5.0	5.9	6.8
1949.....	4.9	6.2	6.8	8.5
1950.....	5.4	6.5	7.9	9.1
1951.....	4.6	6.2	6.6	8.9
1952.....	5.7	7.2	8.5	10.5
1953.....	7.0	8.2	10.4	11.6
1954.....	7.5	8.2	11.0	11.7
1955.....	8.1	9.0	12.2	13.0
1956.....	8.2	9.3	12.4	13.3
1957.....	8.4	9.6	12.4	13.6
1958.....	8.8	9.2	12.6	13.0
1959.....	9.4	9.9	13.9	14.2
1960.....	10.1	10.5	14.4	14.9
1961.....	10.2	10.0	14.8	14.5
1962.....	10.6	10.5	15.3	15.1
1963.....	11.1	10.9	16.0	16.0

SOURCE: Bank of Canada brief, proceedings, p. 118.

At the close of the year 1965 the consumer credit owed by Canadians was distributed as shown in Table 2.

TABLE 2

COMPOSITION OF CONSUMER CREDIT OUTSTANDING,  
CANADA, DECEMBER 1965

	Millions of \$
Cash loans	
Chartered banks (unsecured).....	2,186
Consumer loan companies.....	962
Life insurance policy loans.....	407
Credit unions and caisses populaires.....	840 + (estimate)
Quebec savings banks (unsecured).....	16
Credit buying	
Sales finance companies and motor vehicle dealers.....	1,162
Department stores.....	565
Furniture and appliance dealers.....	209
Other retail dealers.....	422
Oil company credit cards.....	68
Consumer loan co. instalment credit.....	67
Total.....	7,000 (approx )

SOURCE: Bank of Canada Statistical Summary Supplement 1965.

This table tells us who the creditors are, but data are not available to produce a comparable table showing who are the debtors. We do know that a study made in 1959 of 1,500 wage-earning families in Quebec found that 75 per cent of them used some form of credit. The average debt was \$1,200 per family; the poorest families used the most credit, the average used it the least, and the wealthiest were in between.

Investigations made for the Royal Commission on Banking and Finance confirm for a wide sample of the population the fact that poor people are heavy users of credit. The Royal Commission reported as follows:

"Instalment debt is found in 32% of households and at all income levels, although its highest relative use is found in the lower income categories . . ." and that, "Clerical and labouring personnel use instalment debt most frequently." Furthermore, those "with the smallest amounts of reported assets also make heaviest use of consumer credit—partly because of the absence of any other collateral."

## OPEN-END ACCOUNTS

Some retailers allow the customer 30 days to pay for goods without making any extra charge. There are also merchants who make instalment sales contracts clearly setting out the purchase price and carrying

charges as well as the amounts and dates of the payments. It is not difficult for customers who enter into arrangements of that kind to figure out the effective annual interest rate. But the Retail Council of Canada informed us that these accounts "probably comprise a very small percentage of the total volume of credit extended by our members." It is the new types of accounts, known as revolving credit or cyclical accounts, budget or "easy payment" plans, that are responsible for much of the growth in credit buying in recent years, particularly in the large department stores. It is these revolving credit accounts which, according to professional social workers who appeared before us, seem to create the greatest difficulty for low-income people.

Revolving credit is a general term applied to a type of accounting mainly used by the large department stores and some retail chains, which permits occasional purchases to be added into the arrangement. It originated south of the border, and appears to be pretty well confined to North America. The system is regulated by law in New York, California, and Massachusetts, but in Canada, where it has become common only in the last decade, it is still unregulated. There is no uniformity in the plans used even by the major retailers, but the method of billing the customer means that he is not informed of the extra charge for the cost of the loan (referred to as the service charge) until some time after he has acquired the goods, when the bill comes from the accounting or credit department. Any particular individual may not receive his bill at the end of the month because the system involves spreading the billing evenly over the whole period. The "service charge" is usually stated in dollars and cents, and not in percentages. Some firms do inform customers of the monthly percentage charged on the outstanding balance, but it is generally agreed that this type of accounting does not lend itself to informing him of the annual rate of interest he is paying.

## IV

### HISTORY OF REGULATIONS

#### FEDERAL ACTION

Three federal acts, one of them no longer on the statute books, were considered by the Committee to be pertinent to a study of consumer credit: the Small Loans Act, the Money-Lenders Act and the Interest Act. Only the Small Loans Act fixes responsibility for administration on a department of government. It is the duty of the Superintendent of Insurance to watch over that Act, and the former incumbent of the office reviewed the whole situation for the Committee. The Money-Lenders Act has been repealed. The Interest Act is still in force, but we were told that it has never been really effective in controlling excessive rates of interest.

Perhaps it is worth noting that the earliest legislation in Canada relating to "interest, usury and money-lending", passed in 1777, fixed a maximum rate of 6 per cent per annum for all contracts, the same limit that has been specified in the Bank Act until the recent revision. Severe penalties were laid down, including voidance of the contract, for charging higher rates.

This Act and a similar Act passed in Upper Canada in 1811 were repealed in 1853 and replaced by a new Act which, while it maintained the 6 per cent ceiling on interest rates, reduced penalties provided for infraction in that the contract was voided only in so far as it related to excess of interest. The provisions were further eased in 1858 when the contracting parties were permitted to agree on any rate, with the 6 per cent ceiling retained if no rate was stipulated by the parties or by law. This 1858 Act is the origin of sections 2 and 3 of the Interest Act.

The British North America Act of 1867 specifically allocated the subject of interest to the Dominion. Consequently, in the years 1873 to 1886 Parliament passed several acts concerning interest applicable to specific Canadian provinces.

## THE INTEREST ACT

These various acts, together with certain provisions concerning Prince Edward Island enacted in 1869, were consolidated in the Revised Statutes of 1886 as "An Act Respecting Interest", which permitted any rate agreed upon. Among the sections subsequently added to the Interest Act were the present sections 4 and 5, sometimes identified with the name of Sir Oliver Mowat. It was he who introduced a bill in the Senate in 1897 which, after extensive revision, emerged in this form. Sections 4 and 5 of the Interest Act provide that unless the yearly equivalent is expressly stated, only 5 per cent per annum can be recovered under a contract running for shorter than yearly intervals. There is provision for recovery of any excess interest paid. Sections 12 to 15, which apply to the western provinces and the Territories, came later. There have been no changes in the Interest Act since 1917.

## THE MONEY-LENDERS ACT

This Act, passed in 1906 and said to have been the inspiration for modern unconscionable transactions relief legislation, was a watered-down version of a bill introduced by the late Senator Dandurand in 1899 as "An Act Respecting Usury." Purporting to impose a maximum limit of 12 per cent on all loans of \$500 or less, it was ineffective for two reasons: it lacked any definition of "interest", and no one was fixed with responsibility for its administration. The Act remained on the statute books long enough to be included in the Revised Statutes of 1952, but when the Small Loans Act was revised in 1956, the Money-Lenders Act was repealed.

## THE SMALL LOANS ACT

The Small Loans Act, 1939, which is further discussed elsewhere, is the most important piece of legislation affecting consumer credit, and the only act for which responsibility is fixed on a department of the federal government. Six small loans companies and 79 money-lenders were licensed under the act at the close of 1964. The distinction between them is the method of incorporation, i.e. whether by a Special Act of Parliament or otherwise.

The outstanding feature of the Small Loans Act is that it regulates in the area in which it operates, the whole cost of the loan, including any and all other expenses as well as pure interest. The maximum rates, stated in per cent per month, apply to the principal amount of the loan

outstanding from time to time, and charges may not be compounded or deducted in advance.

The Act requires a lender to be licensed by the Minister of Finance if he wishes to charge more than 1 per cent per month on a loan with principal amount not exceeding \$1,500. The charges permitted on personal loans are fairly high because amounts involved are generally small and loans are for relatively short periods. Expenses connected with providing the loans are not directly related to the size of the loan.

The maximum amount that may be charged by licensed lenders is 2 per cent per month on the first \$300, 1 per cent on the next \$700 and one-half of 1 per cent on the next \$500 up to \$1,500. What this means in effective percentage rates is illustrated in Table 3.

TABLE 3  
EFFECTIVE MONTHLY AND ANNUAL RATES PERMITTED  
UNDER THE SMALL LOANS ACT, SELECTED SIZES OF LOANS

Amount of Loan	Percentage Rate	
	Monthly	Annual
\$		
300.....	2.00	24.00
500.....	1.81	21.72
1,000.....	1.48	17.76
1,500.....	1.27	15.24

The Superintendent of Insurance is required to inspect the chief place of business of every licensee at least once a year, and annual financial statements must be submitted in a prescribed form. These are used as the basis of a published report by the Superintendent. The excellent annual reports have been a great help to the Committee in studying the operation of the Act. Originally the prime function of small loans companies and money-lenders was to provide facilities for needy borrowers of small amounts. Although this is still important, these companies have expanded into wider fields. Regulation under the Small Loans Act applies only to loans up to \$1,500, but many licensees lend larger sums as well. Some operate also in the unregulated "sales

finance" field, which means that they purchase conditional sale agreements. Today licensees under the act have come to be regarded as an integral part of the instalment buying pattern, a form of merchandising which evidently appeals to all income groups.

#### EARLY REGULATION UNDER PRIVATE ACTS OF PARLIAMENT

Much of the small loans business is done by a few companies operating under special acts of the Parliament of Canada, and because the original acts of this type antedate the Small Loans Act — and represent the first attempts at regulating the business — a brief review is necessary.

In the first quarter of this century money-lending was, for all practical purposes, unregulated. Sporadic complaints were voiced about exorbitant charges being exacted in spite of the Interest Act and the Money-Lenders Act. Small loans companies or personal loan companies developed to meet the needs of the ordinary man for relatively small sums of money for shorter periods of time. They are one kind of so-called finance companies, and most of them have the word "Finance" in their names.

The first small loans company, since re-named Household Finance Corporation of Canada, continues to do by far the greatest volume of small loans business. This company was incorporated in 1928 by a Special Act of Parliament which fixed charges for "interest" and "expenses". The actual annual rate was then "about double the apparent rate,"—roughly 14 per cent for a loan of \$100 and 16 per cent for \$500.

In 1930 the second company of this kind was incorporated — now the Community Finance Corporation — and in 1933 the company known today as Beneficial Finance Co. of Canada completed the group of the big three operating before World War II. Nine other small loans companies have been incorporated since that time, of which three — Canadian Acceptance Company, Laurentide Finance Company and the Brock Acceptance Company — are still in business, making a total of six. The three last named were set up in the post-war years. At the close of 1964 the three original companies held more than half of the balance of small loans in Canada. They have left it to others, generally speaking, to take the leadership in providing large loans and purchasing conditional sale agreements. A few giants also dominate among the

licensed money-lenders, with six of the 79 holding 80 per cent of their small loans outstanding at the end of 1964.

#### LOAN COMPANIES ACT AMENDMENT

During the early thirties borrowers were finding it difficult to understand the effective rate of interest represented by the complicated scale of charges on loans. In 1934 an amendment to the Loan Companies Act placed an overriding ceiling of  $2\frac{1}{2}$  per cent per month on all companies operating under powers granted by the Parliament of Canada. Although this Act is mainly concerned with companies which lend money on the security of real estate, the ceiling affected small loans companies along with others.

Difficulties soon arose over the fact that business of some small loans companies was mainly concentrated in particular provinces. It was argued that when they had to comply with provincial as well as federal regulations it was a problem to compete with companies operating mainly under other rules. We learned that, "The entire situation continued to be unsatisfactory from almost every point of view."

#### NEED FELT FOR MORE EFFECTIVE CONTROL

At a meeting in the Department of Insurance in 1934, representatives of the small loans companies agreed that the practice of deducting charges in advance should be abandoned. Instead, there would be "single monthly percentage applied to the amount of the loan actually made and remaining outstanding from time to time." But this did not solve all the problems, and it finally became clear that effective legislation was needed.

In 1936 Senator Dandurand, his interest in the subject unabated, introduced a bill based on a recommendation of a sub-committee of the Senate Banking and Commerce Committee, providing for a flat monthly rate on outstanding balances. But for various reasons no action was taken on it by the government.

In 1938 the Banking and Commerce Committee of the House of Commons studied the problem for months, with a stated objective of securing "the best procurable rate for the borrower". That Committee came up with a draft bill providing for a flat, all-inclusive monthly rate of 2 per cent on outstanding balances. The bill applied to loans of \$500 or less. In spite of opposition by some lenders, the bill, which required the Superintendent of Insurance to inspect licensed companies

at least once a year, finally became law. It is known as the Small Loans Act, 1939, and has been in effect since January 1, 1940.

There have been no changes in the Small Loans Act except for amendments in 1956 raising the maximum loans to which it applies from \$500 to \$1,500, and substituting graded maximum rates for a flat 2 per cent per month.

#### FEDERAL LEGISLATION CONCERNING CREDIT UNIONS

Although credit unions are regulated by provincial laws, the Royal Commission on Banking and Finance noted that a federal law respecting credit unions was passed in 1953 "in order to remove any doubts about the constitutional position of the provincial centrals by permitting them to register under a federal act, and to establish a national central, The Canadian Co-operative Credit Society Limited". The report goes on to say that, "Membership in this society, which is supervised by the Superintendent of Insurance, is limited to central co-operative associations declared eligible by Parliament and approved by Treasury Board, a maximum of 10 co-operatives other than credit unions and 15 individuals. The society has not been very active: only four provincial centrals have taken out membership and their investment in its shares and deposits has not been large."

#### PROVINCIAL ACTION

##### CAISSES POPULAIRES—THE "PEOPLE'S BANKS"

It seems appropriate to begin the discussion of provincial regulation of consumer credit with a brief sketch of the origin of the credit union movement which pioneered the lending of money to people of small means. Indeed, in the early years of the century there was no other source of loans at reasonable rates for the low-income group.

Before the turn of the century, in his work as official stenographer in the House of Commons in Ottawa, Alphonse Desjardins recorded the debates concerning excessive rates of interest then being exacted by money-lenders from his fellow-citizens with low incomes. An insight into this area channelled his broad interest in economic and social problems into serious investigation of the problem of usury, and a search for possible solutions.

It was in the Parliamentary Library that he learned of the development of credit unions in Europe and Asia to deal with the credit needs

of working people at a time when credit was generally available only for the needs of the businessman. These "people's banks" as they were called, were savings and loan societies organized co-operatively by working people for investment of their savings and to enable them to borrow money for their real needs at low rates of interest. Mr. Desjardins was instrumental in founding in Levis, Quebec, the first credit union on the North American continent in 1900. The Civil Service Co-operative Credit Society formed in Ottawa in 1908, is the largest co-operative credit society in Canada.

A credit union is more than a financial association; it is an association of individuals, usually with some common bond — industrial, parish, ethnic or community — banded together to help themselves and each other. Credit unions have a democratic and local character which appears to be successful in maintaining the interest of members, by encouraging thrift and by lending money for provident and productive purposes. The idea of sharing in the management of a common venture has wide appeal, and in the credit union one member has only one vote, regardless of the number of shares he holds. The chief source of income of credit unions is the interest on loans made to members. Although credit unions have power to borrow money, and sometimes they do borrow money from the banks, they borrow mainly from their own "league central".

An important difference between credit unions and the *caisses populaires* is that loans of the former are principally for personal purposes, whereas the latter invest heavily in mortgages. Both types of organization are changing. They are moving closer together in that each is expanding into the main business area of the other.

In the thirties a group at St. Francis Xavier University in Antigonish, Nova Scotia promoted credit unions as part of a program of community economic development, particularly among the miners and fishermen. A similar movement developed in those years in the farming communities of the western provinces.

The first credit union act on this continent was passed, appropriately, in the province which gave birth to the movement. This was the Quebec Co-operative Syndicates Act which became law in 1906, largely through the efforts of Mr. Desjardins. Incidentally, he also aided the passage of the first act of this kind in the United States in 1909 in the State of Massachusetts.

Today there is credit union legislation in all the Canadian provinces, and generally speaking, it is somewhat similar. In all ten prov-

inces the maximum interest that may be charged by a credit union is 1 per cent per month on the unpaid balance of the loan, and this interest covers all charges and penalties. Twenty per cent of net earnings must be set aside for a guarantee fund to take care of bad debts. The balance is distributed to members. The effective charge is usually from 8 to 10 per cent, and most societies charge the same rate on all loans. The caisses in Quebec lend at a somewhat lower rate.

The manager of Canadian operations for the Credit Union National Association, whose membership includes 96 per cent of all credit unions in Canada outside Quebec, informed the Committee that there are now in Canada approximately 4,622 credit unions with more than 3 million members and assets of nearly \$2 billion. (Note: Quebec caisses populaires are included although they are not members of the association.)

Under the standard by-laws of Ontario the maximum credit union loan is \$3,000 plus member's own money (shares) of \$1,000; that is a total of \$4,000. Some other possibilities (with first mortgages on real estate) may bring the loan up to \$10,000. Bylaws of some larger credit unions in Ontario permit mortgage loans up to \$30,000. For small loans of under \$200 no security is required. The protection is said to be "personal character".

The Royal Commission on Banking and Finance stated that, "Each of the provincial credit union acts provides for a system of inspection and supervision. In all provinces except Prince Edward Island, where the league is formally responsible, and Quebec, where the law is unclear, a government agency is responsible for the supervision of credit unions." In some provinces inspections are regular and thorough; in others they are infrequent.

Credit unions, although they perform for members the same lending function as the commercial money-lenders, have quite a different philosophy and outlook. Unlike the business firms with their emphasis on the glamorous things that credit will buy, credit unions do what they can to encourage thrift. Their borrowers are also savers. In fact, an official of the Ontario Credit Union League informed us that out of 1,000 members of a credit union, about 600 are savers only. The other 400 borrow as well as save.

#### RETAIL INSTALMENT SALES LEGISLATION

Under the common law those engaged in conditional sales were doubly favored: on the one hand "they were able to maintain a proprietary position even though the buyer was in possession of the goods";

on the other hand "they were able to avoid registration requirements of the emerging bills of sale acts as well as the fetters which equity places on a mortgagee seeking to foreclose.<sup>1</sup>" Although considerable legislation has been enacted to improve the bargaining position of the buyer, revolutionary changes in methods of retailing have resulted in large-scale selling on time that is subject to no public supervision. The seller alone lays down the rules of the game.

#### REGISTRATION OF CONDITIONAL SALES

Between 1882 and 1907 — before anything similar had been done in England, Australia or most of the United States — "all the provinces and territories adopted some form of legislation requiring registration of the conditional sales agreement or the marking of the goods with the seller's name, and, except in the case of Manitoba, conferring upon the buyer a right to redeem following repossession by the seller."

These early acts formed the substance of the first Uniform Conditional Sales Act of 1922 which became the revised uniform act of 1947 and then 1955. Legislation of this kind is in force today in most of the provinces.

#### FARM IMPLEMENTS AND AGRICULTURAL MACHINERY ACTS

The next important development was special legislation in the prairie provinces (Alberta 1913, Saskatchewan 1915, Manitoba 1919) dealing with sale of farm implements. Although this legislation was designed to meet a special situation, it is important because it contains many features today regarded as essential for safeguarding the interests of consumers in instalment sales. It eliminates oppressive contractual provisions by introducing statutory forms of agreement; it protects the buyer's equity in the goods; and licensing provisions ensure that the statute is observed.

#### SEIZURE OF OTHER GOODS (ALBERTA AND SASKATCHEWAN)

In 1914 Alberta moved to regulate the extra-judicial seizure of goods, including goods repossessed under a conditional sale agreement. Seizure was to be by a sheriff or one authorized by him, and a judge's order was required for the sale. The provisions were completely revised

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<sup>1</sup> The quotations in this section are from a definitive article, "Retail Instalment Sales Legislation", *University of Toronto Law Journal*, Vol. XIV, No. 2, 1962, by Professor Jacob S. Ziegel, an expert witness who appeared before us. A good deal of the historical information is based on his research.

in 1929. Very important from the buyer's point of view is the power of the court "to suspend any order of sale pending payment of the debt by such instalments or the performance of such other conditions as the court may determine."

Under this legislation a seller must notify the buyer beforehand of an intended sale. If the buyer informs the sheriff in writing that the value of the goods exceeds the amount of the seller's claim, they may not be sold without the sheriff's consent. Finally, after the sale, the seller must file with the sheriff a statutory declaration of particulars, and pay over any surplus. A 1942 amendment requires the seller to elect between suing for the balance of the purchase price and repossessing.

Saskatchewan moved in 1933 to strengthen the buyer's position. This was in response to a recommendation by a Select Committee of the Saskatchewan Legislature in 1932. Moreover, in 1939 and 1940 amendments were introduced concerning implied warranties and conditions and "empowering the court, on the buyer's application, to stay any intended repossession by the seller, on specified items . . . mainly those which a farmer would regard as indispensable for his operations."

In both Alberta and Saskatchewan the hurdles for the seller have been challenged as infringing on federal jurisdiction over banking and bills of exchange, but without success.

#### MORE DIRECT CONTROL OF FINANCE COMPANIES AND RETAILERS (NOVA SCOTIA)

In 1938 Nova Scotia introduced a licensing statute, The Instalment Payment Contracts Act. It is not a strong statute, and we learned that "no licences have been refused, cancelled or suspended since 1950." (The Saskatchewan Companies Inspection and Licensing Act, 1937, also provides for licensing of sales finance companies, but the primary concern there appears to be with their solvency.)

#### CONSUMER CREDIT CONTROLS (FEDERAL GOVERNMENT, QUEBEC AND NEW BRUNSWICK)

Consumer credit controls were set up for the first time by the Canadian Government under the War Measures Act. During World War II the Wartime Prices and Trade Board was given jurisdiction over consumer credit and instalment buying. A minimum cash payment (about one-third) was fixed, as well as a maximum period for repayment (6 to 15 months, depending on the type of article to be financed).

Other policies worked with these controls to cause virtual disappearance of the passenger car for civilian use. The regulations were eased in 1946, revoked in 1947.

The second experience with Canada-wide controls came in 1950-52 under the Consumer Credit (Temporary Provisions) Act. There was concern then about inflation due to the Korean war. In 1951 the minimum down-payment on cars was 50 per cent, and maximum repayment period 12 months. During that year consumer credit actually declined. Since May, 1952 there has been no direct control of consumer credit throughout Canada.

In 1956 the Government was again seriously disturbed about inflation. At that time officials of the Bank of Canada met with representatives of instalment finance companies to try to get agreement on voluntary control of consumer credit, but the companies were not persuaded.

It should be mentioned here that in 1947, the year that the wartime regulations were abandoned, Quebec passed the Instalment Sales Act, apparently intended to continue control of instalment sales in the interests of consumers of modest means, a move that was said to have the full support of the Quebec business community. Generally speaking, the Act applies only to retail sales up to \$800; a wide range of goods, including motor cars, is excluded. But within these limits, the legislation is more comprehensive than that of either Saskatchewan or Alberta.

The Quebec legislation fixes a minimum down-payment of 15 per cent and a sliding scale of maximum maturity periods. Payments must be of equal amounts with the exception of a smaller one at the end, and the buyer has the right of prepayment. The maximum finance charge is three-quarters of 1 per cent per month. There is provision for compulsory disclosure of the regular cash price, the time price, the down payment, and the instalments. A statutory form of written contract is laid down.

New Brunswick followed the Quebec precedent in 1949. The New Brunswick Act also called for a 15 per cent down-payment and the maximum maturity period was 24 months. Motor cars were not excluded. These restrictions were difficult to administer, and in 1959 the Act was repealed.

## DISCLOSURE

In 1954 Alberta passed the Credit and Loan Agreements Act with disclosure provisions similar to those already described in the Quebec Instalment Sales Act of 1947. The Alberta Act allows for disclosure of

either a rate per cent per annum or the cost in dollars. A bill introduced in Manitoba in 1962 requiring statement of finance charges on time sales in simple annual interest rates never became law, and it was amended to substitute disclosure in dollars. A Nova Scotia Act which grew out of recommendations of the Royal Commission on the Cost of Borrowing Money, the Cost of Credit and Related Matters, requires disclosure of finance charges as simple annual interest rates. It became effective early in 1967. Last year the government of Ontario introduced a Consumers Act which among other provisions includes a disclosure requirement both as to amount and interest. Furthermore, the government indicated that credit grantors would be given a year in which to prepare for the inevitable.

Since 1960 a stream-lined disclosure bill which would require every finance charge to be stated in terms of effective rate of interest on the unpaid balance of the cash price, has been repeatedly introduced in the Senate. Debates on the bill have attracted wide attention and growing support, and they have helped to create the current public demand for more protection. The principle has been embodied in several bills introduced in the House of Commons in recent years.

Official recognition of current thinking was indicated in a statement issued after a federal-provincial conference on consumer credit held in Ottawa in December 1966. The meeting felt that "it is both desirable and feasible to extend interest rate disclosure on a uniform basis to personal instalment loan transactions throughout Canada affecting banks, retailers and sales-finance companies and others." The Minister of Finance noted that an amendment to the Bank Act requiring disclosure of bank interest rates would be introduced early in 1967. This assurance from Ottawa along with interest-rate disclosure legislation in varying stages in four provinces, and the other six provinces generally interested in following suit, means that the outlook for Canadians in need of a loan being able to shop for the best credit buy has never been brighter.

## V

### REPRESENTATIONS AND BRIEFS

Carefully prepared briefs, further illuminated by able spokesmen, were a great help to the Committee in studying this complicated and many-faceted subject. Those in the business of lending money as well as retail merchants who sell consumer goods on credit, were represented by their respective associations. All these delegations included key men responsible for administration in some area of consumer credit. The Canadian Chamber of Commerce put before us views which the Federated Council of Sales Finance Companies said accurately reflect the position of Canadian business on this subject. Several other briefs, including one from the Retail Merchants Association of Canada, quoted with approval representations of the Canadian Chamber of Commerce.

A number of delegations spoke for the interests of all, or segments of, the borrowing public: the Consumers' Association of Canada for consumers as a group; the Confederation of National Trade Unions mainly for the working man; the Canadian Federation of Agriculture particularly for the farmer as consumer; the Family Bureau of Winnipeg with special emphasis on problems of low-income families.

Delegations from the credit union movement dealt with the needs of the small borrower, the solution of whose problems they pioneered around the turn of the century. They also enlightened us about their efforts to educate the public ("basically advertising") and their program of "family financial counselling . . ."

Then we heard from experts who are involved neither as lenders nor borrowers, but whose special knowledge was acquired either in an academic or an administrative role, or both. Submissions of those who appeared purely in their professional or technical capacity are summarized below. Experts who represented government agencies made

equally valuable contributions which are reflected throughout the report and acknowledged in the foreword.

## BUSINESS

The Executive Council of the *Canadian Chamber of Commerce*, spokesman for 850 Boards of Trade and Chambers of Commerce throughout Canada, 2,700 corporation members and 25 association members, set out the overall point of view of business. The focus of the Chamber's brief was on purchase credit rather than loan credit, and two members of their delegation also appeared before us when we heard representations from organizations which spoke more particularly for businesses engaged in large-scale retail operations, and finance companies which buy conditional sale agreements.

It was pointed out that of the total consumer credit outstanding at the close of 1963, roughly 60 per cent was in loan credit, chiefly held by chartered banks, loan companies and credit unions. Excluding the \$54 million owing to oil companies through the use of credit cards, the remaining 38 per cent — more than \$2 billion — was "purchase credit", i.e. credit created by way of sales, by retail merchants. Nearly half of this purchase credit was assigned by the retailer to sales finance companies.

We were told that purchase credit would be "most directly affected by any legislation calling for interest rate form of disclosure," and the position was taken that "since the cost of credit is effectively the difference between the cash sale price and the time sale price it may be contended that it is unreasonable to ask that this mark-up be expressed in terms of an annual rate per year." The Chamber would rely on competition, which they say keeps cash prices in line, to do the same for the price of credit.

It is argued that "conversion of credit charges to interest per annum and the stating of same in a contract at the time of sale (1) is not practical in the case of all credit transactions; (2) that such legislation would seriously affect sales; (3) that the results would involve increased costs; (4) that such practice would tend to obscure rather than clarify credit costs and (5) that the requirement would impose a problem on all retailers but would particularly work a hardship on small merchants." The Chamber therefore supports disclosure of the dollar amount of finance charges, which they say the purchaser can

readily compare with the cash price of goods or services so as to determine what he is paying for credit.

### MONEY-LENDERS

The two important associations of money-lenders whose strong delegations appeared before us represent, in the main, different segments of the business.

The *Canadian Consumer Loan Association* formed in 1944, speaks for 54 companies, all licensed under the Small Loans Act. At the end of 1964 they carried 95 per cent of the outstanding balances of loans regulated under the Act. An important feature that distinguishes members of this group from those making up the *Federated Council of Sales Finance Companies* is that regulated loans — the major part of their business — are made directly by lender to borrower with no dealer intermediary. We were informed that like the credit unions, and unlike the banks, they lend mainly to lower-income people, those who seldom have readily marketable assets which can be pledged as security. The small loans companies find it necessary to carry out a good deal of investigation before making loans. For this purpose they operate Lenders' Exchanges. Unlike the loans made by sales finance companies, which are generally for goods or services acquired now for future use, a high proportion of loans made by licensees under the Small Loans Act go into consolidation of debts or re-financing.

Small loans companies also transact business beyond that regulated under the Small Loans Act. Although they agree that regulation of small loans is in the public interest, they are opposed to the recommendation of the Royal Commission on Banking and Finance and others that the scope of that act be extended to cover loans up to \$5,000. The argument is that those borrowing above the present ceiling of \$1,500 are, in the main, people with higher incomes, to whom a choice of several kinds of credit, some at much lower rates, is now open.

The Federated Council of Sales Finance Companies, set up in 1957, represents 48 companies whose "primary function is to provide wholesale and retail financing for a wide range of durable consumer and business goods." These companies, generally known as acceptance companies, are not parties to the original transaction of a retail sale, but many of the basic terms of the contract are determined by the sales finance company. Their interest in maintenance of a high level of sales is obvious, and in certain respects it is identical with that of the retail

dealer. More than 90 per cent of all new cars sold to dealers in Canada are financed by these companies, and this represents a very large part of their business. Other important segments are appliances, furniture and other major durables. In 1964 finance companies accounted for approximately 70 per cent of sales finance credit to consumers, and 90 per cent of instalment credit to business. Together, they held about one-sixth of the total consumer credit outstanding at the end of 1964.

The finance companies expressed the view that "the single most important public policy issue surrounding the field of consumer credit is the manner in which the finance charge is disclosed to the consumer." They maintain that the present method of expressing the cost in dollars and cents is "the most meaningful disclosure of finance charges, from the consumer's standpoint." Armed with this information, they say, the consumer can make "an intelligent and reasonable choice, not only between a purchase on a cash or credit basis, but also among the various competing sources of credit which are available to him." They firmly oppose the idea of requiring disclosure of an annual interest rate or charge for credit. It is argued that to focus attention on the interest rate "may confuse the consumer and provide opportunities for exploitation by some unscrupulous retailers." The finance companies take the stand that, "Legislation enforcing interest rate disclosure would be a disservice to the Canadian consumer."

Their answer to those who believe that use of consumer credit may be excessive, is education in the proper use of credit. This they consider to be one of their own important functions, a function which they are trying to fulfil by co-operation with "high schools, universities, newspapers, radio, television and Better Business Bureaus throughout the country."

## RETAIL DEALERS

Like the associations representing the money-lending business, each of the two organizations of retailers is made up of members with more or less a community of special interests. Consequently, their points of view do not always coincide. Nevertheless, they have a common interest — shared, as mentioned above, with the finance companies — in maintaining the high and increasing volume of retail sales, a growing proportion of which are credit sales. Both associations of retailers affirm that they believe in full disclosure to the consumer of what they consider to be the information best suited to enable him to make his own choice of credit purchase.

The *Retail Merchants Association* is more than 60 years old. It was founded in 1896 and incorporated by Special Act of Parliament in 1910. It has some 20,000 paid-up members, including operators of small, medium and large retail establishments, but small businesses predominate. The Association is organized from the municipal level through provincial associations in all provinces but Newfoundland. It considers itself "official spokesman for independent retailing in this country", and in spite of the trend towards large-scale store operations, they say there is a growing demand for highly specialized shops with considerable service. Independent stores still dominate in number of establishments and they account for approximately 70 per cent of the total volume of retail trade.

The *Retail Council of Canada*, formed in June 1963, speaks for the main big department stores and retail stores which account for some 30 per cent of the retail store trade.

The Retail Merchants Association takes the position that "full disclosure of the cost of credit should be made to each purchaser at the time the sale is consummated and the credit contract is signed." It should be "meaningful to the consumer and manageable to the retailer." They oppose "any regulation which would require 'disclosure' in the form of an effective rate of simple interest." They believe this would be "impractical, if not impossible" in their business. The Retail Merchants Association submits that a regulation of this kind "would serve only as an impediment to the ease with which consumer credit is presently granted." Their conclusion is that declaration of an effective rate of simple interest "may have consequences which would impede the economy of Canada." Instead, they advocate disclosure in dollars and cents, arguing that "the declaration of simple interest in a retail credit transaction might well be an open invitation to the minority to engage in unscrupulous practices and to exercise deception on the consumer by various forms of manipulation and misrepresentation."

Perhaps the main area of disagreement in policy between the Retail Merchants Association and the Retail Council of Canada concerns the question whether or not, if regulations do require disclosure of annual interest rates, special exemptions should be allowed for revolving or cyclical accounts. These accounts are used to a limited extent by the smaller merchants, but they are an important and a growing part of the business of big department stores. In this type of account the cost of the credit is generally not made known to the purchaser until some time after the purchase is made.

The stand taken by the Retail Merchants Association is that to give special privileges to this type of account while requiring declaration of the effective rate of simple interest on other credit accounts would discriminate against small retailers. They argue that the same regulations should apply to all. "The independent retailer", they say, "is not in a position to dictate to his customers that all forms of credit will be in the shape of revolving or cyclical accounts."

The Retail Council of Canada admits that, "One of the most important circumstances affecting a contract for the loan of money or the financing of a purchase is the charge being made for the money lent." But they do not believe "that any accurate conversion of a money charge to a simple annual interest rate can be made in respect of the type of credit accounts which comprise the major part of the credit granted by our members." These are the cyclical or revolving accounts which are so hard to understand, and about which we heard so much.

## CONSUMERS

The *Consumers' Association of Canada* views consumer credit as a service with a price that can and should be shopped for carefully. They take the position that "in our competitive system free choice must go hand in hand with knowledge." To make free choice possible, they rely on truthful disclosure by the lender and education of the borrower. If the consumer knows the cost of borrowing, both in money and in terms of simple annual interest, they believe he will be able to make intelligent use of credit. They therefore want "legislation making full disclosure of financial charges expressed in terms of simple annual interest obligatory on all credit contracts . . ." They would have "the Government of Canada control the manner of calculations and degree of accuracy in computing the financial charges and calculating the cost in terms of simple annual interest."

Further, the Consumers' Association of Canada "request the Federal and Provincial Governments to enact legislation making provision for a 'cooling-off' period of three days" in the case of door-to-door sales. As to revolving credit, they commend the system used by The T. Eaton Co. in Montreal where, "There is a service charge of  $1\frac{1}{2}$  per cent per month calculated on the previous month's balance."

The Association supports the recommendation of the Royal Commission on Banking and Finance that power to regulate loans under the Small Loans Act be extended to cover loans up to \$5,000.

The *Confederation of National Trade Unions* with a combined membership of all affiliates numbering some 150,000 at the beginning of 1965, spoke from the experience of its members. They stated their conviction that "... credit buying is a social evil." They say it "creates the illusion that the majority can readily obtain goods they cannot acquire otherwise under the present economic system." The low salaries of many make this unrealistic; the high cost of interest further erodes their already precarious standard of living.

So convinced is the union of the need to protect families with low incomes, that their inclination would be to recommend abolition of the consumer credit system altogether. However, before suggesting such a radical step they say a good deal might be done to eliminate abuses and give the consumer more protection.

It is pointed out that, "Finance companies borrow at a low rate of interest and lend this same money at exorbitant rates." Misleading advertising and unnecessarily obscure contracts make it difficult for the borrower to find out what obligation he is assuming. It is argued that merchants and finance companies, interested in "profits beyond the sale profit" co-operate to bring this about. The high cost of "the multiplication of middlemen and agencies" is paid indirectly by the consumer.

The union has taken practical steps to educate its own members, and has offered the same help to the general population. Many working people have taken advantage of this. The union has organized a "family budget service" to protect the workers' limited purchasing power by (1) making clear to him the cost of credit, and (2) bringing about a better way of administering the family budget.

They feel that to make their work more effective, what is needed is better protection from the law. They say that the power over consumer credit is now in the hands of the financiers; that it should be reorganized in the interests of preserving the purchasing power and standard of living of consumers, and in the interests of the economy.

The *Confederation of National Trade Unions* agrees with the recommendation of the Royal Commission on Banking and Finance that the scope of the Small Loans Act should be extended to cover loans up to \$5,000. They would fix a maximum legal interest rate of 9 per cent.

Specifically, the *Confederation of National Trade Unions* recommends:

1. That "the vendor be obliged to clearly indicate in a sales contract":

- (1) the cost of the product,

- (2) the difference between the cash price and the price on the instalment plan,
- (3) the rate and the cost of interest.

2. That legislators should declare illegal a provision commonly used in contracts for the sale of cars which has been declared by the courts to be "unfair and abusive" although it is "neither illegal nor contrary to public order." They say that, "Since the debtor remains liable for the final balance even after repossession and repair costs of the car, the charge is often greater than the value of the vehicle. In default of payment, the debtor remains liable for the repairs to be made by the garage, the balance of his account and the contract of the second purchaser." If provisions of this kind were outlawed, car dealers would be obliged to check more carefully the ability of the purchaser to repay the obligations he assumes.

The principal recommendations of the Confederation of National Trade Unions are summarized in their own words as follows:

"1. The appointment of a commission to investigate interest rates, particularly with regard to the influence of such rates with respect to the purchasing power and living standards of the consumers.

2. That, in the interim, the rate of interest be set at a maximum of 9 per cent per annum, on a decreasing basis.

3. That adequate measures be provided to enforce the revelation of interest rates, real cost and administrative costs of loans and credit purchases."

The *Canadian Federation of Agriculture*, "a national general farm organization widely representative of farm people" supports the recommendation of the Royal Commission on Banking and Finance as to the need to continue effective control through the Small Loans Act on interest charged by loan companies. They agree that regulation of interest rates should be extended at least to loans up to \$5,000. The Federation questions the direction of policy which would move "away from controls, limitations and guarantees on interest rates."

They are not convinced of the need to raise the  $\frac{1}{2}$  per cent provision, since they say the interest rate actually works out as somewhere between 12 and 24 per cent per annum. They note that the three considerations in money lending are:

1. the cost of the money to the loan company,
2. the cost of administration, and
3. the cost of losses for bad debts and collection from poor payers.

On loans over \$2,000, they believe 12 per cent per annum "is more than should be charged." If a company is lending to high-risk borrowers who raise the costs to unreasonable levels, perhaps these people should be refused loans.

The Federation "recognizes that buying on credit has become a well established practice in the Canadian economy, and that there are legitimate interest charges and other costs associated with providing the financing of purchases on credit." Nevertheless, "it thinks consumers have a right to know in advance . . . the real level of finance charges involved, expressed in both dollar amounts and simple annual interest rates", and "that consumers are also entitled to reasonable protection from excessive charges and exploitation at the hands of those providing credit services." They add that "without adequate finance charges disclosure legislation, consumers generally are unable to protect their own interests."

The Canadian Federation of Agriculture calls on the Government:

1. "to pass finance charges disclosure legislation" applicable to "farm machinery and supply credit transactions with farmers as well as to consumer credit as more narrowly defined."

2. "to limit interest rates charged by finance companies to reasonable levels."

Specific suggestions are made for implementation of the legislation:

1. The responsibility should be given to "an appropriate department of government."

2. The administration would issue "an official standard form for finance disclosure purposes" designed to elicit clear and simple information. The form "would be required to be used and attached as one of the documents in every transaction involving consumer credit."

3. The administration would issue interest rate and finance charge books to save finance companies, retail stores and dealers from the need to make complex calculations.

4. The Act should contain a provision that "the price of the article must be that at which cash transactions are normally carried out."

The brief presented on behalf of the *Family Bureau of Greater Winnipeg*, a social agency financed by the Community Chest, provided us with an insight into the serious human consequences that can result from over-extension of credit. At the same time as they express concern about "consumer credit and debt collection", they recognize the important part that consumer credit plays in the economy. The brief points

out that the federal government, "in the public interest" controls currency, and to some extent banking. Consumer credit has developed into "a third purchasing system" which requires government attention.

Although the agency welcomes provincial legislation to provide relief from unconscionable transactions, they emphasize that what is needed is protection "at the time transactions are being made." Families are sometimes forced to skimp on necessities of life to meet payments on agreements which would never have been made had they been understood.

But dealings that cause difficulties to pile up are not always unethical. Social agencies are concerned about credit issued in situations "where the ability to pay does not exist." They "sharply question" the assumption that in order to protect his own interests the creditor can be relied on to exercise the necessary caution. The creditor is not necessarily the chief loser when payments fall behind. Concern is needed for the debtor, for his family, and for the community at large. The tensions built up in harassed individuals and families "frequently contribute to family breakdown, mental illness, crime, and economic dependency."

Illustrations were provided of how situations arise for which there is no foreseeable solution even though lenders act "according to routine business practices, and the borrowers, without dishonest intent although without realistic thinking . . ." The submission is that, "The widespread existence of situations like these demonstrates that our present system of relying solely on the caution of the creditor does not provide adequate control."

The Family Bureau of Greater Winnipeg urges that legislation along the lines of the Orderly Payment of Debts Act (which was so helpful to low-income families in Manitoba until 1961 when it was declared to be bankruptcy legislation and therefore outside provincial jurisdiction) be enacted by amendment to the federal Bankruptcy Act. (See discussion of recent amendments, p. 14.) The agency would also like to see provincial legislation to exempt from garnishment or seizure "basic necessities" related to size of family; also "protections to the purchaser's equity on repossession of goods." Following is a summary of specific recommendations made.

1. That the total interest and other charges be stated as a simple annual percentage in both loans and conditional sale contracts.

They would amend the Interest Act "to include in the definition 'interest' all the costs of the loan on lien notes, conditional sale contracts and chattel mortgages"; bring conditional sales and lien notes within the

Small Loans Act which, in its definition of "loan" includes all the costs of the loan.

2. That a waiting period be established in respect of conditional sale contracts and lien notes. This would be a three to five-day cooling-off period.

3. That there be protection from excessive charges on small loans, including conditional sale contracts.

The Family Bureau of Greater Winnipeg supports the Consumers' Association of Canada in recommending that the Small Loans Act should apply to loans up to \$5,000. They would add "conditional sale contracts, lien notes and chattel mortgages."

4. That a minimum down-payment be required in all conditional sale or lien notes.

5. That steps be taken to investigate the practice of selling conditional sale contracts or lien notes in bulk to collection agencies and finance companies, with a view to establishing some controls in this area of business practice.

It is suggested that the assignee of a lien note or conditional sale contract should take it "subject to the equities between the original purchaser and vendor."

6. That the Parliament of Canada should take immediate steps to amend the Federal Bankruptcy Act to provide enabling legislation under which a scheme of orderly payment of debts could be established by the provinces. (See p. 14.)

## CREDIT UNIONS

The *Ontario Credit Union League Ltd.*, incorporated under provincial charter in 1942, made its submission "both on its own behalf and on behalf of the 1,425 credit unions in Ontario", members of the League. The League in turn is a member of the Credit Union National Association which also appeared before us.

The Committee was told that it is the practice of credit unions to make full disclosure to members of the cost of their loans, both in dollars and percentage-wise, and we were given a simple formula for doing this. The belief was expressed that "... similar disclosure of dollar cost and percentage charge can be made by other lenders", and it was strongly recommended that all consumer credit lenders should be required to state in all contracts and all advertising and publicity:

1. the *full* dollar cost of credit (including all charges);
2. the percentage rate of *all* charges expressed in a uniform way.

The League endorses the recommendation of the Royal Commission on Banking and Finance that regulation of small loans be extended to amounts up to \$5,000, with the present 2 per cent per month maximum applying on the first \$300, and 1 per cent per month maximum on all higher amounts.

The brief of the *Credit Union National Association* points out that the reasons why it is necessary to disclose to the borrower "the total cost of the loan expressed both in dollars and cents and in terms of per centum per annum" are:

1. so the borrower will fully understand the obligation he is undertaking; and
2. so that he will be able to compare the cost of the loan with any other loan he might be able to secure.

Approval is expressed of provincial legislation such as the Ontario Unconscionable Transactions Relief Act, but it is emphasized that "there is also a desperate need for disclosure legislation to prevent the innocent or the ignorant user of credit from signing such a contract in the first place."

Specific recommendations are these:

- "(a) that extenders of every kind of credit be required to disclose in writing to prospective borrowers both the total cost in dollars of the credit to be extended and the rate in terms of simple annual interest;
- (b) that all advertising by credit extenders give full details of the total costs in dollars and in terms of per centum per annum;
- (c) that victims of unconscionable transactions be granted redress by the courts, and those who have exacted the unjust terms be penalized under the law."

They also advocate continuing education of the consumer in the better handling of his finances.

*La Federation des Caisses Populaires Desjardins*, in addition to describing the origin of their movement, which is discussed elsewhere, provide examples of the way in which they clearly set out payment conditions of loans, leaving the borrower in no doubt about the interest rate per annum, and illustrating how the rate is calculated on the gradually decreasing debt. For instance, the total interest paid on a loan of \$100 for one year at 6 per cent, repaid over 12 months at the rate of

\$8.34 a month, is \$3.30. (The part of the payment going to interest gradually drops from 50 cents the first month to 5 cents for the final month.)

The Committee was informed that the difference between the annual interest rate on mortgages and the charge made for personal loans is about 1 per cent. The equivalent of this 1 per cent reduction for mortgage loans is also given for personal loans "secured by shares, savings, or readily negotiable bonds."

La Federation des Caisses Populaires Desjardins urges the need for legislation:

- "(a) to determine a reasonable limit to the cost of consumer credit and to eliminate usury;
- (b) to oblige creditors and merchants to reveal the *real cost of credit* in terms of simple annual interest rate expressed in percentage form, so that the consumers may compare the costs of loans and credit terms offered and know the obligation they undertake;
- (c) to force creditors and retailers to tell the truth as to the rate of charges when they advertise;
- (d) to foresee the cancellation of those contracts which are not complying with this legislation;
- (e) to oblige the lenders of money who presently come under the jurisdiction of the Small Loans Act to report to the Federal Superintendent of the Assurances on all their loans not exceeding five thousand dollars (\$5,000);
- (f) to oblige consumer goods retailers to demand from the consumer a money down payment equal to 20% of the regular price of the merchandise offered, at the time of purchase, and to prevent them from charging interests and other finance costs exceeding 1% per month or 12% per year, and to establish interests and other financial charges on the unpaid balance of credit according to the simple annual interest method."

## THE EXPERTS

In addition to the many experts who represented particular institutions or were part of delegations speaking for various groups, independent experts gave us the benefit of their technical knowledge, gained in the academic and practical worlds. *Mr. Douglas D. Irwin, C.A.,*

Financial Consultant to the Ontario Select Committee on Consumer Credit, and *Dr. Jacob S. Ziegel*, Professor of Law at the University of Saskatchewan and author of authoritative publications on consumer credit, prepared written submissions which are summarized below.

Mr. Irwin emphasized that pure interest rarely exists, but nevertheless the term is in common use. He suggested that the term "interest" might be avoided and discussion could be simply in terms of "the cost of money". However, a committee member expressed apprehension that to do this could further confuse the constitutional issue.

A summary of Mr. Irwin's expert opinion follows:

"1. It is mathematically possible to determine a rate % on all loan situations by use of:

- actuarial methods
- arithmetic methods

2. Practically, it would be an intolerable administrative burden to use the above methods from first principles to determine rates on individual contracts, but rates may be readily determined for an individual contract by development of tables of universal application to all contracts of a specific lending classification (with the exception of cycle credit accounts which are subject to special circumstances).

3. Disclosure requirements should be of universal application and the basic methods of calculating rates should be determined for each classification of loan contract.

4. Use of tables would not appear to add a significant administrative burden insofar as tables are presently used, extensively, to determine finance charges.

However, practical considerations suggest that the tables should permit a measure of tolerance when applied to a particular contract. A degree of accuracy of one-eighth of 1% has been suggested but this could be further refined.

5. A common language of expression and common criteria of measurement could be sought so that rates would be comparable. Pursuant thereto it would appear necessary that all elements of the cost of borrowing in all contracts must be included in the calculations.

In the case of blended payment contracts all payments should be nearly equal (say within a variation of 10% from the average).

6. Cycle credit accounts may have to be considered separately. If the buyer (borrower) retains the initiative the lender may have to be

permitted some tolerance in regard to disclosure of the effective rate applicable from day to day. Compliance with rate disclosure might be confined to declaration and imposition of a monthly and/or annual rate % on the current balance or average balance.

7. Disclosure of a rate % may be in addition to, not in substitution for, disclosure in dollars thereby providing for common language and measurement without disturbing possible borrower preferences."

Dr. Ziegel's brief contributed a good deal of the historical and background information used and acknowledged elsewhere in this report.

He points out that two American economists, Nugent and Henderson, predicted more than 30 years ago that, "As in the small loans field, society will probably begin by restricting the use of certain credit instruments and end by finding complete supervision necessary." A survey of the situation today "shows that their prophecy was substantially correct, not only for the United States, but also for other countries." Generally speaking, the initial concern is to protect the buyer's or hirer's equity. Then comes prohibition or regulation of unfair contractual clauses, especially those relating to warranties and conditions. "In the third — generally post-war — stage there is a belated realization of the importance of regulating the financial terms of the agreement. Hence disclosure requirements and hence the limitation of finance charges of various kinds and the statutory regulation of the buyer's right to rebate in case of prepayment."

Dr. Ziegel says "the social importance of some form of regulation can hardly be denied." And he concludes with this statement:

"In the twentieth century, the century of the common man, the the common man, paradoxically, has been at a disadvantage because of the powerful forces arraigned against him in the market place and his own excusable ignorance of legal and economic facts. . . ."

In a supplementary brief dealing with the constitutional aspects of consumer credit regulation Dr. Ziegel listed sections of the British North America Act which in his opinion confer specific powers to legislate concerning consumer credit. They are:

Federal government: Section 91,

(15) Banks and banking

(18) Bills of exchange and promissory notes

(19) Interest

(21) Bankruptcy and insolvency

(27) Criminal law

Provincial governments: Section 92,

(13) Property and civil rights

91 (15) He considers that this section would cover "all aspects of consumer loans made by the chartered banks." He would have the position of the banks clarified, permitting them to charge more than 6 per cent, but requiring that actual, all-inclusive charges be stated in one rate. He would lay down regulations concerning advertising, and proclaim the right of the consumer to prepay a loan and save on interest payments, something that the banks now permit as a courtesy.

91 (18) He would make it impossible to deprive a consumer who is being sued on a note, of the right to raise defences which could be raised against the original seller. The businessman already has this kind of protection.

91 (19) He supports the principle of a disclosure law "which would require the finance charge component in every consumer credit transaction to be stated both in terms of dollars and cents and in terms of a percentage rate on the declining balance of the principal." He adds his support to the recommendation of the Royal Commission on Banking and Finance that the limit of the Small Loans Act be raised from \$1,500 to \$5,000, and that the rate structure be reviewed. He would extend the Act to cover "all other consumer credit transactions involving a sum not exceeding \$5,000."

The supplementary brief discusses the need to clarify the extent of the federal government's power to legislate concerning interest and matters incidental thereto, but be that as it may, Dr. Ziegel points out that "if the federal government has no power to regulate finance charges under this head, then the provincial governments do have it."

91 (21) "Provincial legislation frequently authorizes a county or district court judge to order the payment of a judgment debt by instalments." However, it has been held that legislation to permit consolidation of debts is beyond provincial jurisdiction. It rests with the federal government, because it deals with bankruptcy and insolvency, a subject within the exclusive jurisdiction of the federal government. Dr. Ziegel urges the federal government to exercise this power so that consumers who over-extend their financial resources can make plans "to rehabilitate themselves expeditiously and with minimum expense." (See p. 14.)

91 (27) Under the wide powers of the federal government to legislate concerning criminal law, Dr. Ziegel suggests that,

- (a) certain types of undesirable activities which do not fall under other headings of section 91 could be prohibited (e.g., prohibition of "cut-off" clauses and wage agreements).
- (b) criminal law power could be an alternative for legislation that may fall under one of the other headings in section 91, e.g.
  - 1. Prohibition of usurious finance charges in instalment sales and service agreements, and
  - 2. Disclosure law.

But whether or not this use of the criminal law powers would stand up in the courts he felt remained to be seen. Dr. Ziegel summarized his views as follows:

"1. There appears to be little doubt that, by virtue of its powers over banks and banking, the federal government has plenary powers to regulate all aspects of consumer credit loans extended by the chartered banks.

2. It seems equally clear that the federal government has the constitutional power — if not indeed the exclusive power — to curb abuses connected with the taking and negotiation of promissory notes. It is submitted that it also has a concurrent power to prohibit the insertion of 'cut-off' clauses in consumer credit agreements.

3. It is submitted that the *Barfried* case (discussed at length in the proceedings) does not impugn the validity of the federal Small Loans Act and future legislation of a similar character, and that a disclosure law would fall within the 'interest' power of the federal government, at any rate where that law is restricted to the disclosure of the cost of loans.

4. Whether the federal Interest power also extends to the regulation and disclosure of finance charges in instalment sales is a moot point, in view of the 'time-price' doctrine. The prohibition of usurious finance charges could, however, probably be justified under the criminal law power, though the justification of a disclosure law under this head would present substantial difficulties.

5. Finally, there is little doubt that the federal government has jurisdiction under its bankruptcy and insolvency powers to adopt legislation to provide relief for consumers who are overburdened with debts."

*Mr. Dan McCormack* is included with the independent experts because of his experience of more than two decades as sales manager for one of the largest independent sales finance companies in Canada. No longer in that business, he has, in his own words, "no axe to grind", but his intimate knowledge of "captive sales agencies and captive sales financing" — an area hardly touched on by others — was most helpful to the Committee.

Mr. McCormack did not prepare a formal brief. He made his presentation in person and submitted to extensive questioning. His evidence dealt mainly with "denial of economic freedom to dealers" because of manufacturers dictating to them the "choice" of finance companies. However, he did admit to counsel for the Committee that dealers, in turn, whether independent or captive, sometimes exert pressure on customers to direct their "choice" of financing.

## VI

### COMMITTEE'S FINDINGS

#### RECENT TRENDS

In order to place in perspective changes that have occurred in recent years in the whole consumer credit picture, we have compared the figures provided by the Bank of Canada for the years 1953 and 1963. In that ten-year period, as Table 4 shows, all segments of the consumer credit business have expanded, but the rate of growth has varied widely. The most striking change is due to the entry of the chartered banks into the small loans business on a large scale. Now the banks have displaced the retail dealers as the largest segment. Both instalment finance companies and life insurance companies are relatively less active in consumer lending than they were a decade ago, and the reasons for that are discussed elsewhere. Growth of consumer loan companies has been phenomenal. Credit unions and caisses populaires have practically doubled their share of the credit business, but they continue to represent a relatively small segment of the whole (12 per cent).

TABLE 4  
CHANGE IN COMPOSITION OF CONSUMER CREDIT  
OUTSTANDING AT YEAR END, 1953 AND 1963

Credit Grantors	1953		1963		10-Year Increase	
	Millions of \$	% Distribution	Millions of \$	% Distribution	Millions of \$	% Increase
Retail dealers.....	624	31.5	1,141	21.6	517	82.9
Instalment finance companies.....	516	26.0	873	16.5	357	69.2
Chartered banks.....	308	15.6	1,432	27.1	1,124	364.9
Life insurance companies.....	225	11.4	385	7.3	160	71.1
Consumer loan companies.....	176	8.9	808	15.3	632	359.1
Credit unions and caisses populaires.....	129	6.5	640	12.1	511	396.1
Quebec savings banks.....	3	0.2	14	0.3	11	366.6
All credit grantors.....	1,981	100.1	5,293	100.2	3,312	167.2

SOURCE: Bank of Canada brief, proceedings, p. 112.

The fall of the retail dealers from first place occurred in spite of tremendous growth in department store credit sales. What has happened is that the weight of the retail credit business has shifted. At the same time as many retailers have been feeling the competition from other forms of credit, the big department stores, by moving into a system of accounting which is not readily adaptable to smaller firms, have been increasing their share of the credit business within the retailers' segment. (See Table 5.)

TABLE 5  
CHANGE IN COMPOSITION OF CREDIT ON RETAIL SALES  
OUTSTANDING AT YEAR END, 1953 AND 1963

Credit Grantors	1953		1963		10-Year Increase	
	Millions of \$	% Distribution	Millions of \$	% Distribution	Millions of \$	% Increase
Department stores.....	167	14.6	456	22.6	289	173.1
Charge account credit (including oil company credit cards).....	274	24.0	413	20.5	139	50.7
Instalment credit.....	183	16.1	272	13.5	89	48.6
At retail level.....	624	54.7	1,141	56.6	517	82.9
Instalment finance companies.....	516	45.3	873	43.3	357	69.2
All retail credit grantors.....	1,140	100.0	2,014	99.9	874	76.7

SOURCE: Bank of Canada brief, proceedings, p. 112.

This has no doubt been an important factor in the overall increase in their sales. Comparative data for department stores and for the other retail group in which credit granting is most common — the furniture, and appliance and radio dealers — are shown in Table 6.

TABLE 6  
RETAIL SALES OF DEPARTMENT STORES AND OF  
FURNITURE, AND APPLIANCE AND RADIO DEALERS,  
CANADA, 1954 AND 1963

	1954	1963	9-Year Increase	
	Millions of \$	Millions of \$	Millions of \$	% Increase
Department Stores.....	1,062	1,649	587	55.3
Furniture, and Appliance and Radio Dealers.....	486	581	95	19.5

SOURCE: Supplementary brief, Retail Council of Canada, proceedings, pp. 706-7.

Next to the chartered banks, the greatest absolute increase in the 10 years ending with 1963, in consumer credit outstanding, is represented by the consumer loan companies. Although these companies continue to deal mainly in cash loans, it has been suggested that they are gradually moving into the purchase credit area. Table 7 gives some support to this theory, and it is a possibility that the Committee has kept in mind.

TABLE 7

CHANGE IN COMPOSITION OF BUSINESS OF CONSUMER LOAN COMPANIES,  
SHOWING OUTSTANDING CASH LOANS AND INSTALMENT CREDIT  
AT YEAR END, 1953 AND 1963

Nature of Credit	1953		1963		10-Year Increase	
	Millions of \$	% Distribution	Millions of \$	% Distribution	Millions of \$	% Increase
Cash loans.....	173	98.3	753	93.2	580	335.3
Instalment credit.....	3	1.7	55	6.8	52	1,733.3
All consumer credit.....	176	100.0	808	100.0	632	359.1

SOURCE: Bank of Canada brief, proceedings, p. 112.

### SMALL LOANS

Throughout the hearings of this Committee no subject has come up more often than the Small Loans Act, and practically all the words spoken about it have been words of praise. We were told — and the hearings have left us in no doubt — that a book could be written about this Act alone.

The Small Loans Act came into effect in 1940 at a time when it was generally agreed that the situation with respect to small loans was deplorable, and that legislation was needed in the public interest to bring order out of chaos. The provinces were consulted before the Act was adopted. Although one or two of them expressed some reservation about its constitutional validity, none opposed it at that time, nor has any province done so since. There was naturally some opposition from money-lenders, but by and large, the Small Loans bill had the blessing of those whose business it was designed to regulate. And to this day, with regulations adapted to changing conditions, the Act has continued to enjoy the confidence of those in the business. In fact, the Canadian Consumer Loan Association helps the Superintendent of Insurance in policing the small loans business generally.

Administrators of the legislation assure us that enforcement has presented no serious difficulties; the few occasions on which it has been

necessary to apply legal sanctions have generally arisen out of misunderstanding rather than deliberate evasion of the Act.

We heard no suggestions that operation of the Small Loans Act should be in any way curtailed, but many have urged that protection of the small borrower be improved both by increasing the size of the loan to which the Act applies, and by broadening the definition of "loan" to include specifically purchase credit as well as loan credit.

The arguments in favor of broadening the scope of the Small Loans Act are: (1) that more than 25 years' experience demonstrates the value of its provisions, and it would be in the public interest to extend the jurisdiction exercised under the Act; (2) that since the Act came into effect the whole field of consumer credit has greatly expanded and changed in nature, and that the small loans business has been much affected by these changes.

The Act has served many small borrowers well. Although the upper limit was originally \$500, since 1957 protection has been extended to those borrowing up to \$1,500. The Royal Commission on Banking and Finance has recommended that the upper limit should be further raised to include loans up to \$5,000. This recommendation has been endorsed in briefs presented to us by the Consumers' Association of Canada, The Canadian Federation of Agriculture, the Family Bureau of Greater Winnipeg and others. It is opposed by the consumer loan companies, and Mr. MacGregor, with long experience in administering the Small Loans Act, feels that to move up to \$5,000 might mean going beyond consumer finance into an intermediate area.

The other way in which we have been urged to recommend extension of the scope of the Small Loans Act is to ensure that it applies specifically to purchase credit as well as loan credit. Many types of credit transaction common today were not even contemplated a quarter of a century ago, and it is becoming increasingly difficult to say whether a transaction involves mainly the sale of goods or the lending of money. At the same time the evidence shows that the money-lending business has gradually moved away from the simple matter of supplying needy borrowers with small sums of money.

The small loans business continues to grow both in amount of money involved and in number of loans made. Loans regulated under the Act advanced in one year now total more than \$800 million; the number of accounts is close to 1½ million, and the average loan is \$570. As Table 8 shows, the size of the loan has been gradually increasing in recent years.

TABLE 8  
NUMBER OF SMALL LOANS MADE BY SIZE OF LOAN,  
1962-1964

Size of Loan \$	Year					
	1962		1963		1964	
	No.	%	No.	%	No.	%
1-500.....	642,108	49.2	650,678	47.1	667,082	45.4
501-1,000.....	584,825	44.8	608,337	44.1	646,797	44.0
1,001-1,500.....	77,222	5.9	121,048	8.8	155,815	10.6
Total.....	1,304,155	99.9	1,380,063	100.0	1,469,694	100.0
Average size of loan.....	\$537		\$558		\$570	

SOURCE: Report of the Superintendent of Insurance for Canada, 1964, p. vi.

We learned from the report of the Royal Commission on Banking and Finance that "the administrative expenses of the consumer loan companies are the highest of any class of financial institution." The high expenses are associated with numerous small branch offices. "They have almost doubled in the seven years ending in 1961 until now there are a quarter as many consumer loan offices as there are chartered banks." In spite of these high costs, net profits after taxes are also high compared with other major institutions. For example, they are more than double those of the mortgage loan business.

#### REFINANCING AND CONSOLIDATION OF DEBTS

It has become a widespread pattern in recent years — evidently encouraged by money-lenders — for a person who requires a further loan before he has discharged his present indebtedness, to borrow more than enough to pay off his debt or debts, receiving at the same time a certain amount of money for his immediate use. If the transaction is with the finance company to which he already owes money, this is called refinancing his loan. If the new and larger loan is taken to pay off various debts, some to other creditors, it is called consolidation of debts.

Both practices have the effect on the borrower of increasing his indebtedness and putting off, perhaps indefinitely, the happy day when he hopes to be in the clear. Furthermore, the cost of the loan, that is the

interest and other charges which he must pay for the use of the money, is likely to snowball. Those who enter into arrangements of this kind are generally low-income families in desperate need of cash, the families least likely to be in a position to secure money at favorable rates, and probably also lacking in understanding of business transactions. With current emphasis on the need to protect the family as an institution, and evidence on all sides of the threat to family solidarity that results from unmanageable debt, this seems to be an area where more protection is needed.

Without suggesting that there is no legitimate place for refinancing and consolidation of debts, we would point out that it can open the door to abuse. The practice of refinancing is now so common that only about 35 per cent of the money debited to present debtors is actually paid to them in cash. Well over 60 per cent goes to refinance previous loans. (See Table 9.)

TABLE 9  
REGULATED SMALL LOANS ADVANCED TO CURRENT BORROWERS,  
1962-1964

Description of Loans to Current Borrowers	Year					
	1962		1963		1964	
	\$	%	\$	%	\$	%
For refinancing.....	336,231,421	64.8	370,839,738	65.3	396,307,112	64.3
New funds advanced.....	183,014,326	35.2	196,792,439	34.7	220,078,008	35.7
Total.....	519,245,747	100.0	567,632,177	100.0	616,385,120	100.0
Loans to current borrowers as percentage of all small loans.....	74		74		74	
All small loans.....	700,906,537		769,648,673		837,636,533	

SOURCE: Report of the Superintendent of Insurance for Canada, 1964, p. vi.

Spokesmen for a number of consumer loan companies recently told the Nova Scotia Royal Commission that "there will be as many as three refinancings after the first borrowing and that the average borrower will remain on their books continuously for about seven years." The Nova Scotia Commissioner remarked that "a very substantial proportion of the persons who borrow from the consumer loan companies remain more or less indefinitely on the books of these companies." Because

these current debtors are the source of 74 per cent of all new business, the practice of refinancing makes a big impact on the over-all accounts. So great is the impact that 47 per cent of all small loans goes into refinancing, leaving little more than half to be paid to borrowers in cash. (See Table 10.)

TABLE 10  
ALL REGULATED SMALL LOANS, SHOWING NEW FUNDS  
ADVANCED TO BORROWERS AND MONEY APPLIED ON  
DEBTS ALREADY INCURRED, 1962-1964

Destination of funds	Year		
	1962	1963	1964
	\$	\$	\$
Advanced to borrowers.....	364,675,116	398,808,935	441,329,420
Refinancing.....	336,231,421	370,839,738	396,307,112
All small loans.....	700,906,537	769,648,673	837,636,533

SOURCE: Report of the Superintendent of Insurance for Canada, 1964, p. vi.

How the cash advanced is shared by those already on the books of the lenders, new borrowers, and those who have discharged earlier loans is shown in Table 11.

TABLE 11  
NEW FUNDS ADVANCED IN REGULATED SMALL LOANS  
BY CLASS OF BORROWER, 1962-1964

Type of Borrower	Year					
	1962		1963		1964	
	\$	%	\$	%	\$	%
Current borrowers with earlier loans undis- charged.....	183,014,326	50.2	196,792,439	49.3	220,078,008	49.9
New borrowers.....	128,117,933	35.1	143,444,483	36.0	157,414,766	35.7
Previous borrowers with earlier loans dis- charged.....	53,542,857	14.7	58,572,013	14.7	63,836,646	14.5
All new funds advanced....	364,675,116	100.0	398,808,935	100.0	441,329,420	100.1

SOURCE: Report of the Superintendent of Insurance for Canada, 1964, p. vi.

## SUMMARY

The present situation is, then, that those who are already in debt to the small loans companies or money-lenders — and more than half of the borrowers are in that position — actually receive in cash only 36 per cent of the small loans debited to their accounts. Furthermore, nearly half of all funds advanced in small loans go, not to the borrowers, but to their creditors.

Who some of these creditors are can be deduced from the statement in the report of the Royal Commission on Banking and Finance that many of the consumer loan companies are “subsidiaries or affiliates of sales finance companies or of foreign-owned consumer loan companies.” At the end of 1961 “five American-owned companies had 57% of all business and three subsidiaries of Canadian finance companies a further 28%.”

That consolidation of debts is a lucrative business is borne out by a statement of a representative of the Retail Merchants Association. “At the moment,” he said, “even some of the smaller finance companies are trying to get in on this credit bandwagon. They are trying to get people to consolidate their accounts, to borrow the money from them and pay cash. Many of those dealers in Canada now are refusing to take cash for goods contracted for on credit, because the credit is a good thing. They are in the finance business rather than in ordinary business.”

In view of the fundamental changes in business methods as they affect transactions regulated by the Small Loans Act, the time appears to be ripe to re-think the definition of a small loan. Perhaps the whole purpose of the Act should be reviewed in the light of current practices in the credit business in the sixties.

The primary function of the small loans companies and money-lenders used to be to enable needy people to borrow small sums. Although they continue to be practically the sole source for desperate borrowers, the business of actually providing cash has become much less important to them as they have moved into other, and more lucrative areas.

It is not a simple matter to determine an appropriate scale of maximum rates for small loans. In Mr. MacGregor's words, “The proper objective would seem to be the level at which efficient lenders only may make a reasonable profit rather than a higher level that would attract the inefficient as well. Looked at from the borrower's standpoint, one must have regard for the desirability of ensuring adequate facilities,

especially for needy borrowers of small amounts, and yet of securing the best procurable rate."

What facilities are now available to the little man who finds himself in need of a loan? Unless he is a member of a credit union he has little chance of borrowing at a low rate of interest. Of the three main sources open to him one, the finance company, does not deal directly with the consumer. If the money is needed to purchase goods he may be able to buy them on credit, in which case he may become indebted to the retail dealer or to a finance company if the agreement is sold. But if his need is for cash, there appears to be no alternative to borrowing from the small loans companies or money-lenders. The trouble with that is that if the man is already in debt — a most likely situation — the condition attached to receipt of money is likely to involve him in additional borrowing, putting off even further the day when he can hope to be out of debt.

Many customers of small loans companies and money-lenders are people who are unable to obtain credit elsewhere. Some have no doubt been turned down by the banks. The main reasons for this, as revealed in the Poapst sample survey for the Royal Commission on Banking and Finance, are likely to be that they lack security, guarantee or collateral (39.3%); tight money policy (24.7%); poor risk (9.8%); insufficient income (9.5%). Furthermore, we were informed that about 50 per cent of those who apply for small loans to the consumer lending companies or money-lenders are rejected.

Even after this selection process, 60 per cent of the borrowers from these companies earn \$400 or less per month, and about 80 per cent earn \$500 or less. Because sales finance companies are not regulated, comparable information is not available concerning the financial status of their debtors, but there is no absolute selection of risk such as operates in the banks and insurance companies, and consequently a considerable proportion of their dealings are with people of small means. Table 12 shows that these three institutions — small loans companies and money-lenders; finance companies; and retail merchants — charge a much higher rate than do institutions which restrict their loans to the better off.

That is not to say that all borrowers from high-cost lenders are poor people, but individuals with substantial incomes and considerable assets are in a better bargaining position and are able to borrow at lower rates. Since choices are made only among actual alternatives, for

the low-income groups the striking change in the decade 1953 to 1963 was the tremendous increase in involvement with consumer loan companies. Admittedly, retail dealers and finance companies both have more money outstanding, but their lending is not concentrated among the poor. The growing importance of the banks in consumer lending has had little effect on the business of the money-lender, since the banks restrict their lending to a higher income group. Part of the recent mushrooming of consumer credit — particularly bank loans — represents borrowing by what have been called unrationed borrowers. These are the people with other alternatives who borrow money only when rates are favorable.

### SALES FINANCE COMPANIES

Sometimes consumers wish to make substantial purchases which they are unable or unwilling to make out of savings. The balance may be financed by the retailer, or he may assign the conditional sale contract to a finance company. Companies of this kind, which grew up following World War I to finance automobile sales, continue to find their principal source of business in this area, but financing of household goods and of commercial and industrial items is also important to them. The role that these companies play in the consumer credit finance field has grown tremendously in the post-war years, and they are the largest single group of borrowers in the money market. But their developing power and influence have not been matched by increased accountability to the public. As the Royal Commission on Banking and Finance noted, they are the only major financial institutions unregulated by any act other than normal company legislation. They make no reports to responsible officials of the kind that form the basis of published data on consumer loan companies and money-lenders.

The finance companies insist that they are neither retail merchants nor money-lenders, but they describe themselves as "in the business of extending credit". Nevertheless, the larger companies have subsidiaries which are consumer loan companies. They also have affiliated insurance companies to provide that "service". And these large companies control the lion's share of the business. Like the small loans business, sales financing is highly concentrated in a few companies.

Ten finance companies do about 90 per cent of the business covered by DBS statistics; the four largest account for about 80 per cent. Most of the others — there are some 150 in all — are quite small,

many with only one office. At the close of 1965 Canadian consumers owed sales finance companies \$1,140 million, and more than \$900 million of this, roughly 80 per cent, was for the financing of passenger cars (including those sold for commercial as well as personal use). Financing the sale of motor cars accounted for 78 per cent of the business done in December 1965.

Although the finance company is not an actual party to the original contract between buyer and seller, it certainly seems to be looking over the seller's shoulder. The finance company has usually determined in advance for both buyer and seller the financial terms of the deal, generally including the requirement that the purchaser sign a personal note, which will be assigned to the finance company along with the agreement for sale. The finance companies even provide retailers with a standard form on which agreements are made. Once the customer has signed on the dotted line his relation to the finance company is soon made clear. In the words of one of their representatives, "We deal with the consumer after the fact, because he makes his payments directly to our offices." Some sales finance companies buy these agreements subject to recourse against the merchant if the customer defaults. The customer has no such recourse against the finance company if the goods prove to be deficient. The President of the Federated Council of Sales Finance Companies referred to the purchaser as "the customer of the dealer and therefore, indirectly, our customer . . ."

Finance companies compete to have retail dealers bring them their contracts, and the competition is in the terms on which they offer to buy these agreements. An important inducement offered to the retailer to obtain these profitable contracts is the "wholesale" financing of their inventories at much below retail rates (around  $6\frac{1}{2}$  per cent on new cars,  $7\frac{1}{2}$  per cent on used cars, including the "service charge"). Availability of credit at favorable rates is important to the retailer, and for some smaller businesses it may be essential to survival. We were informed that the sales finance company pays for the dealer's cars at the factory, and that the same arrangement may apply to appliances and boats. A member of the Committee expressed his view based on wide experience, that, "Retailers cannot possibly go into business today without the service of an acceptance corporation or a finance company."

Another bond between the finance companies and the retail dealers is that they share with the dealer the finance charges which the customer pays. The sum set aside for the dealer, sometimes called the dealer's reserve, is "the difference, if any, between the retail price for

the financing established by the dealer and the wholesale price established by the finance company." The exact amount credited to the dealer varies somewhat, depending on whether the sale is of appliances, home improvement, new or second hand car. The dealer's share is said to vary from 10 per cent to 20 per cent of the total charge to the consumer.

A member of the Chamber of Commerce delegation, also Vice-President and Deputy General Manager of the Industrial Acceptance Corporation Limited, compared the dealer's share with the insurance agent's commission. The analogy implies that the finance company is paying for the service. Many retail dealers are very close to being agents of the finance companies. As one finance company representative put it, "It is the merchant who creates the business on our behalf."

### ECONOMIC EFFECTS OF CONSUMER CREDIT

It is more than thirty years since Robert S. Lynd called the consumer "the man few economists know". Much has happened since that time to bring the consumer and his behavior to the attention, not only of economists, but also of governments and administrators. It is now recognized that decisions of consumers concerning whether to buy, what to buy, and when, exert a powerful influence on the flow of goods and services. When all is said and done, the goods and services produced and consumed form the substance of our national economic life. The Royal Commission on Banking and Finance observed that "it is the individual and collective wants of persons that the other categories of borrowers (the financial institutions and markets) are ultimately designed to serve."

Personal expenditure on consumer goods and services accounts for roughly two-thirds of Canada's gross national expenditure. The importance to the economy of all this spending is beyond dispute, but the more specific interest of the Committee is in the fact that a high proportion of the purchasing power of consumers each year goes for goods and services already received; at the same time they are committing their future income for things to be enjoyed now.

What effect this growing custom will have on the overall economy is causing some concern to responsible people. As far back as 1938 the final report of the Banking and Commerce Committee of the House of Commons spoke of the need for "further information as to the relation

between consumers' credit and business depressions." Today the issue may be inflation rather than depression, but in a general sense several members of the Committee repeatedly raised the same question: possible effects on the economy of either uncontrolled rise or too much restriction on consumer credit.

Nobody suggested that consumer credit was not rising fast enough now. Except for references to the reduction in consumer spending that took place during World War II — when prices were controlled and consumer goods were scarce — and fears voiced by representatives of the finance companies and retail businessmen concerning possible repercussions if credit were to be curtailed, little light was shed on the economic effects that could be foreseen if the tide were stemmed. The General Manager of the Retail Council of Canada thought that increased use of credit probably caused people to invest more in capital goods, such as labor saving devices, and less in services. We note that the Ontario Committee felt it was not within their terms of reference to evaluate "whether the total volume of credit is at a desirable level or whether legislative action should be taken to restrain the use of credit generally . . ." Professor Ziegel gave us his view that credit restrictions would not impede the economy. He said that British experience with fairly strict regulations speaks for itself. "Consumer credit there has doubled . . . in the last five years." He added: "I think the same is true of Australia."

When a country is threatened with inflation or recession various methods may be employed to deal with it. We rely mainly on monetary and fiscal policies as an antidote. Monetary policies are used to regulate the overall amount of credit. When interest rates rise, there is a general tightening of credit to business, but a rise in interest rates appears to have little effect in curbing consumer credit. The reason for this is that in a period of tight money those with money to lend become more selective, making fewer loans and investments of the kind that tend to produce lower yields. The usual high yield on money lent to consumers is not particularly sensitive to changes in the much lower business interest rates. There may be a certain amount of credit rationing by the banks, and there are signs now that the banks are emphasizing saving in their advertising. The way Mr. Bouey of the Bank of Canada explained it was that finance companies can always get hold of money if consumers "want to pay" 15, 18 or 20 per cent.

Neither do consumer loan companies appear to make any major changes in their lending policies. Small lenders, who must depend on

bank credit, may be short of funds, but the Royal Commission on Banking and Finance notes that subsidiaries of Canadian and American firms — and they do most of the business — “obtain all the funds they need from their parents and appear to be little affected by such difficulties.”

So lucrative is the retail financing of motor cars that to ensure the flow of this consumer credit business, finance companies continue to undertake the wholesale financing of cars even if it is hardly worth the paper-work when they must borrow at approximately 6.25 per cent and lend at 6.50 per cent.

More than one member of the Committee raised the question whether unrestricted growth of consumer credit impairs control over monetary policy. Perhaps as good an answer as any is to be found in the evidence given in an earlier enquiry by the Governor of the Bank of Canada concerning his predecessor's efforts in 1956 to curb the volume of consumer credit, particularly instalment finance, by attempting to get voluntary agreement of the credit grantors. He was not successful. The Co-Chairman's question to the representative of the Bank of Canada as to whether “there is any indication that legislation permitting some control by the Bank of Canada over consumer credit agencies at a time of financial or monetary emergency would be beneficial” went unanswered. However, Mr. Bouey agreed with a member of the Committee that “if we felt consumer credit was getting out of bounds we could not look to the Bank of Canada to curtail it, it would have to be done through some act of Parliament.”

## SOCIAL EFFECTS

The importance of the collective spending of consumers in influencing economic conditions has been considered above. But it must not be forgotten that how well Canadians manage their personal finances is of fundamental importance also to the well-being of the household and family, and indeed of the whole society.

It is reassuring to have the opinion of the Royal Commission on Banking and Finance that “by and large Canadians manage their finances with greater wisdom than appears to be popularly believed. Most households appear to have a reasonable pattern of assets in relation to family needs, income and risk-taking ability. Most, too, have

made sensible use of instalment and other credit to acquire physical assets that yield them high returns, not only in financial terms but in terms of convenience and ease of household living."

Overall statistical data document the striking growth of credit in the post-war years, but detailed information concerning consumers' personal finances is sparse. Available data are usually in gross figures or averages, and much of the discussion concerning possible dangers in over-extension of credit has been in terms of comparison of total consumer credit with aggregate earning power of consumers, with their total assets, or with the gross national product. When Mr. Bouey of the Bank of Canada was considering the "ratio of consumer credit to personal disposable income", he recognized that it can give only "a very rough indication of the probable capacity and willingness of consumers to incur further increases in debt." The Nova Scotia Royal Commission on the Cost of Borrowing Money, the Cost of Credit and Related Matters, points out the need for statistics on personal finances of consumers. The report of that Commission observes that the degree to which individuals are excessively committed cannot be determined by reference in general to the financial position of consumers. Professor Neufeld of the University of Toronto has also spoken of the need for "data on personal disposable income and net worth of individuals using consumer credit."

Although it is subject to the same limitation that it deals with "the average borrower", one of the few informed opinions that has come to our notice concerning a safe amount of credit for an individual to assume, is found in a statement made to the Ontario Committee by the chartered banks. They suggest that "instalment obligations up to 15 per cent of net income, exclusive of residential mortgages" would be reasonable. One who represented the Consumers' Association of Canada at the hearings of our Committee, recently told the Canadian Home Economics Association that only families who have an income above subsistence level can afford to use credit at all. Well publicized recent studies suggest that roughly one-fifth of Canadians are in what is declared to be the poverty group. It would therefore seem that her estimate that about 10 per cent of Canadian families are unable to cope with credit is no exaggeration. The words of the final report of the Commons Banking and Commerce Committee of June 1, 1938 bear repeating today: "The unhappy lot of those who have a deficit economy, in the sense that they are chronically unable to live within their income, is not to be bettered by borrowing (no matter the rate)."

Consumer credit can take various forms, but not all kinds of credit are available to the low-income groups who do not usually possess assets which can be pledged for security. Banks and insurance companies lend mainly to those who are better off, leaving the poor people — unless they can borrow from credit unions — to the small loans companies, retail credit dealers and the sales finance companies, all of whom, for reasons explained elsewhere, charge high rates.

A man may borrow from one party to pay another in cash, or he may deal with a merchant who sells him an article (or a service) and at the same time lends him the money to pay for it. If, as often happens, the retailer sells the instalment contract to a finance company, the debtor may be obliged to make his payments to one who has no obligation whatever to him. But the sale of the original agreement to pay does not change the nature of the transaction. The essential unity in consumer credit is the fact that it practically always arises out of the sale of goods and services, and in every case it creates debts which the consumer undertakes to pay.

From the point of view of the consumer, then, the important first question is whether or not he can afford to add to his commitments. This is something which the wise buyer decides for himself. But temptation is great in a world of easy credit, and not everyone is sufficiently well informed to make a rational decision. The danger is that poor people will, through lack of understanding of the consequences, bite off more than they can chew. At a conference on consumer credit held at the University of Saskatchewan a few months ago, a Co-Chairman of this Committee observed that the poor need protection because "they are more gullible, more easily cheated, less conscious of the quality of goods they buy, more likely to over-commit themselves, more likely to deal with high cost neighbourhood stores and pedlars, less aware of credit charges, less able to understand and assert their rights." He added that, "For them a missed pay cheque spells disaster."

Losses on loans and on time sale agreements are relatively small. Should payments fall behind, a well organized collection system includes "reminder notices, telephone calls, letters, and, in some cases, personal calls at customers' homes." Finally, there is the threat, at least in the mind of the borrower, of legal proceedings, perhaps the dreaded garnishee of wages. Little wonder that the sacrifices that may have to be made by the debtor's family to keep up payments over an extended period are not the lender's prime concern, particularly if all contact with the original seller ends when the customer signs on the dotted line, and the agreement is immediately sold to a finance company.

Obviously, it is before he commits himself that the unwary consumer needs disinterested advice. Today this kind of person puts himself in the hands of those whose business depends on selling goods and services. A representative of sales finance companies, arguing against disclosure of annual interest rates, told us that the interest of the common man "is not how much percentage interest he is going to pay but, basically, is he apt to obtain credit." The applicant for the loan may very well allow the urgency of his present needs to obscure a realistic assessment of his future financial position, and enthusiasm for maintaining a business quota is likely to be uppermost in the mind of the lender. These circumstances combine to create a potentially dangerous situation for the borrower with scant resources.

#### COUNSELLING

The president of the Canadian Consumer Loan Association told us of experiments being conducted in Ottawa and Winnipeg by the Credit Grantors' Association with what they call a "free debt counselling service" to help those whose debts have grown beyond their capacity to cope with them. Managers of various companies contribute their time in the evenings to counsel these people. This type of counselling was provided for 310 Winnipeg families in 1963 and 225 in 1964. We were told that the plan is expected to spread. There was some suggestion that these experimental programs "are trying to give free service" to those not in a position to pay for consolidation of their debts, but, generally speaking, consolidation of debts appears to involve adding to already high interest charges. A member of the Committee asked whether it would not be better to arrange for consolidation of debts without increasing the amount of money involved and adding to the interest. The answer was: "... I think that most good Canadian citizens are not anxious, when they get into a state of indebtedness, to go to a welfare agency and get assistance in that way. They want to pay their own way." We were informed that company staff is available "to talk to people and to guide them and counsel them in how they should pay and straighten themselves out."

We have learned also of a private agency called The Credit Counselling Service set up in Toronto under a 23 member board of directors. The president, a lawyer, said in a press interview that "the service was an outgrowth of a general belief among social workers, family courts and businessmen that inability to handle money creates many

personal problems in a large cross-section of the community." The president states that the agency is not a charitable organization, and that they are "just as interested in seeing that the creditors get paid for goods legally bought as we are in guiding a debtor, or managing his affairs so he can pay his way out of his difficulties". Emphasis seems to be on working out ways to meet the payments and on the use of credit. There is apparently no plan to give advice on whether or not a purchase should be made.

The brief presented to us by the Canadian Consumer Loan Association stated that, "It is a matter of record that consumer loan companies cooperate fully with the armed forces benevolent funds and other welfare organizations when such organizations are called upon to assist families to adjust their affairs." The annual reports published by the Army Benevolent Fund Board set up by Parliament in 1947, illustrate the importance to veterans and serving soldiers, and hence to society, of this cooperation. Because families of serving soldiers and veterans form a large and probably representative sample of Canadian families, their experience with consumer credit problems provides an insight that is unique. Furthermore, many of the situations dealt with by the Fund have originated in civilian life.

In its report for the year ended March 31, 1962 the Board notes that "the consumer credit 'explosion' has had a serious effect on the financial well-being of a number of Canadian families."

"Where the head of the household had thorough knowledge of money management based on a high educational level or perhaps sound training given by parents, no problem arose. If on the other hand, the family had no opportunity to learn the fundamentals of domestic financing, they very often became the victim of highly-developed sales practices and easy credit with the inevitable result—a serious debt problem.

Many of these families were found to have a critical lack of knowledge regarding interest rates, carrying charges, conditional sales contracts, charge accounts, revolving budgets and other forms of financing which must be readily understood if the consumer is to avoid becoming involved in personal debts."

The following extracts from two recent annual reports of the Board graphically describe contemporary problems affecting a great many Canadian families:

1963: "Again this year, the number of applications where a summons or judgment for debt has been issued showed a marked increase. Creditors appeared to be resorting to seizure,

garnishment of wages, repossession of goods or other legal action for the satisfaction of debt in greater extent than has been the custom in previous years."

1964: "The cost of living continued to be a real problem for families living on a marginal income—and the need for assistance for such families marked the year's activities.

The type of applicant assisted by the Fund is usually a good citizen. He is attempting to provide a reasonable standard of living for his family and very often his problem can be met by financial assistance, together with counselling which will permit him to overcome the temporary financial distress. The Fund has accepted the responsibility to help this group, where there is a willingness to help themselves."

Some measure of the importance of the work of the Army Benevolent Fund is the number of cases dealt with in a year. In the fiscal year ended March 31, 1964, 3,142 grants were approved, most of which were made when an unexpected contingency had caused a financial problem. These contingencies included "sickness, accident, death or other occurrence resulting in loss of income, damage to property or severe financial indebtedness." Although many individuals helped by the Board are already financial casualties, a continuous preventive program is also carried on through publication of informative material on budgeting, consumer buying, sales financing, consumer borrowing, buying and selling of automobiles, insurance and savings plans, as well as by preventive individual counselling.

There is no doubt that a great many families — especially those with low incomes — desperately need financial advice. Those who can no longer cope with their debts certainly need help but from the point of view of the individual consumer as well as that of society, the need for advice is most urgent before any new commitment is made. We are impressed with the preventive work done by the Army Benevolent Fund Board, and feel that to make that kind of help available to all families would be in the public interest.

Because those offering to lend money or sell goods are hardly in an independent position to advise prospective customers, we believe this kind of advice should be offered through the regular family agencies in the community. Emphasis would be more likely to focus on the best use that can be made of the limited family income, and there would be less chance of stress being put mainly on "the proper use of credit" when the budget cannot reasonably provide for any extra outlays.

When it has been decided on a rational basis that the consumer can safely assume a proposed debt, then the question arises as to which form of credit is the best buy for him. That usually boils down to the cost of the loan, a subject that is discussed below. Other than the cost of the loan, and consequences that follow for those whose payments fall behind, conditions of borrowing are of greater interest to lenders than to borrowers. For it is the method of financing the loan that determines who ultimately collects, and how much, for the use of the money and services connected with the transaction (i.e. interest and other charges). Finance companies, consumer loan companies and retail dealers as well as banks and credit unions, are all anxious to increase their share of consumer credit, although some are more selective than others of their clientele.

### THE COST OF THE LOAN

It costs money to borrow, that is to rent the use of someone else's money, and individuals and families are advised to shop for credit as for other goods and services. This advice comes not only from the Consumers' Association of Canada but also from those who offer to supply the credit: finance companies, money-lenders and retail merchants. The need for a loan is often directly related to an immediate outlay. Once it has been decided that the individual must borrow, the important question for him is whether it would be advantageous to borrow cash or to deal on credit with the seller of the goods. A spokesman for the Canadian Chamber of Commerce agreed that the best way of deciding this is to determine the respective rates of interest. If the decision is to buy on credit, it is well to take into account the possibility that the credit agreement may be sold to a finance company, setting up new obligations to unknown parties.

Should the plan be to borrow money and buy for cash, the next question is where the prospective borrower can get the best buy. Those who have a relatively large current income, relatively good financial prospects, and sufficient assets that can be liquidated which they are willing to pledge as collateral, are in a good bargaining position. These individuals, who are not only willing but practically certain to be able to pay, are a lender's best risk. Although consumers generally pay a higher rate for credit than businessmen, those who are considered first class risks have no trouble in borrowing from banks. They are also more likely than the average man to have insurance policies on which they can raise money. Rates charged by insurance companies are most favorable, and bank rates on consumer loans are also relatively low.

But these sources are not generally open to the low-income group. Except for those who are members of credit unions, they must borrow from loan companies or money-lenders. Some kinds of retail credit buying are also open to them. Generally speaking, only the more expensive types of credit are available to the poor.

The main reasons for this are that in the small loans business, loans are by definition of a size that raises the costs of administration; and since these loans are often made without security, there is said to be considerable risk attached. In retail sales financing the costs of administration are generally high. Current rates paid by consumer borrowers are summarized in Table 12.

TABLE 12  
ESTIMATED ANNUAL PERCENTAGE COSTS OF  
CONSUMER BORROWING

	Rates	
	Stated %	Effective Annual %
<i>Cash loans</i>		
Chartered banks.....	6 p.a.	9½-11½
Credit unions.....	1 per month	8-10
Caisses.....		6- 8
Consumer loan (companies depending on amount of loan; under \$1,500).....		15.24-24
Life insurance policy loans.....		6
<i>Credit buying</i>		
Sales finance companies		
New Cars.....		12.5-18.8
Smaller contracts.....		16-23
Retail stores.....		13-17 approx.

SOURCE: Compiled from data provided by Research Department, Bank of Canada.

Because the above rates differ somewhat from those presented by Mr. Andre Laurin of the Confederation of National Trade Unions, Mr. Laurin's estimates are set out below:

	Approximate annual %
Cooperatives.....	6
Banks.....	6-12
Finance companies.....	6-24
Acceptance companies.....	18-60

The man on the street thinks of the cost of borrowing money as interest, and generally speaking, that is the cost as far as the businessman is concerned when he is lending mortgage money or borrowing himself. But when he is dealing with the private consumer the word "interest" is taboo. So deep-seated is the desire to avoid speaking of interest rates that a representative of the sales finance companies said they figure their business in terms of "the return per \$100 that we make available". A member of the Committee quickly observed that this was really the same thing as talking about percentages. In dealing with the consumer a separate method of calculation is used: all costs of a loan are usually lumped together in what is called the service cost for the whole transaction. Abandonment in transactions with the consumer of the age-old and otherwise universal practice of expressing yield on money as a percentage per annum was singled out by the Nova Scotia Royal Commission as "the direct and principal cause of much of the confusion which undoubtedly exists today concerning the cost of lending and credit."

The Nova Scotia Royal Commission pointed out that, without exception, disinterested Canadian sources favor disclosure of the cost of credit as a rate of interest. For loans regulated under the Small Loans Act, of course, all related charges are included in the cost of the loan. Opposition to extending this concept to larger loans and to retail credit agreements "has almost exclusively come from the industry, particularly from the highly vocal and well-organized sales finance companies who have mounted an extensive campaign against it."

Those who undertake to pay finance charges are in a poor position to assess their value when they are given no information as to how the charges are made up. Representatives of the finance companies who appeared before us estimated that more than half of the cost of the money they provide is for other than interest charges. We learned from the Chamber of Commerce delegation that "... most retail stores find two-thirds of the cost [of extending credit] is other than interest, and one-third may be classed as money cost. The other costs are legal, staff, space, telephone, stationery, investigation, collections, reserve for losses, etc. The charge for forbearance, or what we think of as interest, will cover only one-third of the actual cost of most retail transactions on credit."

No person has suggested that interest is not a factor in the cost of lending money. Professor Ziegel assured us that "so far as economists are concerned, interest means the cost of the loan or other credit being extended". That is not, however, the judicial interpretation. Admitting

that other costs than interest often enter, it seems reasonable to inquire what these costs are, and to what extent they occur in different types of consumer credit. We have the word of a financial expert that pure interest is an economic concept of the value attached to the use of money, *per se*. It is compensation for deferring satisfaction of wants which immediate use of the money would otherwise bring. Pure interest in this sense rarely exists, but the term is nevertheless in common use where other factors are present in the cost of the loan. "Perhaps the closest approach to pure interest", said Mr. Irwin, "is found in the case of a government Treasury Bill in regard to which service cost, direct costs and risks are, practically, non-existent."

Except for the rare case of pure interest, "every charge for the use of money includes, in some measure, at least three of the following elements:

1. Pure interest
2. Risk
3. Service costs
4. Direct outlays (e.g. legal fees)"

If the interest element is to be considered as simply compensation for forbearance of use of the money, presumably the interest rate could not depend on who borrows the money. The much higher cost of money to consumers must lie in the other three elements. As to the risk, it is true that consumer loans and consumer credit are often granted without security. However, the evidence as to losses suffered by lenders convinces us that the risk is relatively small, certainly not sufficient to account for the great difference in cost of consumer loans as compared with business loans. We agree with the Nova Scotia Royal Commission that, "Risks are grossly overstated in the modern context." It is doubtful whether the lender's risk is any greater — or even as great — as that assumed by the unsophisticated consumer when he signs an agreement to buy goods, perhaps of doubtful quality, from an establishment which he may never have heard of before.

"Service costs" are seldom spelled out and they naturally vary a good deal. Though some services are admittedly provided for the convenience of the consumer, others, such as purchasing the contract and investigating the applicant, are more likely to benefit the lender. When it was suggested to a representative of the Canadian Chamber of Commerce that "... what you are saying is that credit is an expensive service to the customer." the answer was: "It is a service. Whether it is expensive or not is a matter of opinion." Since there are no absolute

standards in this area, opinions appear to be roughly divided between those in the money-lending business and all other members of the community. It is significant that the consumer is given little or no information on which he could base a reasonable judgment, and no choice as to whether or not he wishes to buy the services.

Direct outlays, including legal fees, enter into overall costs of lending. In the case of finance companies and money-lenders, costs of this kind as well as investigation of individual circumstances, should be greatly reduced by standardization of transactions and by the large amount of business done with people already on the books. (See Table 10.)

As for retail credit — department stores should seldom require costly legal work on individual accounts. There must be considerable expense connected with the sale of cars, but it should not be too difficult to account for necessary legal fees and disbursements in the same way as is done in mortgage deals and other transactions.

Our conclusion is that there is good reason for charging higher rates to consumer borrowers than to business borrowers, but we do not understand why the spread should be so great. If lenders refuse to reveal the elements that enter into the costs of consumer loans, we can only conclude that the charge is higher than economically justifiable. A spokesman for the finance companies defended their resistance to stating interest rates on the grounds that "people would be inclined to take a second look." This statement provoked one of our members to observe that that would be all to the good.

## HONESTY AND TRUTHFULNESS

The Committee affirms its belief in the inherent honesty and truthfulness of the average Canadian. We include both individual businessmen and the general public — by no means mutually exclusive groups. All workers are consumers, and most adult consumers are workers. All businessmen are members of the general public, but only a minority of the public are businessmen, or even acquainted with business practices.

## BORROWERS

We learn from lenders that failure of borrowers to pay as promised results not so much from irresponsibility or deceit on the part of the debtor as from unforeseen changes in his circumstances such as ill health

or loss of employment, making it impossible for him to fulfil his undertaking. Other evidence, particularly that of the credit unions and social agency representatives, emphasizes the part that lack of understanding of a transaction can play in entering on the road to disaster.

#### LENDERS

A committee which appeared before the Nova Scotia Royal Commission on behalf of the local branch of the Credit Grantors Association of Canada, the retail committee of the Halifax Board of Trade and the Halifax-Dartmouth Credit Exchange, related their experience that "as much trouble had been occasioned by irresponsible credit granting and lending as by irresponsible borrowing and buying." Nevertheless, experience of administrators of the Small Loans Act — the only source of information concerning Canada-wide consumer borrowers over an extended period — is that lenders regulated by the Act seldom contravene its provisions. Any infractions have generally been due to misunderstanding rather than deliberate evasion. But even if we accept the fact that borrowers are generally truthful and that most lenders are carrying on a legitimate business in an ethical way, all admit that there is room for improvement in consumer lending practices.

Businessmen have a legitimate interest in curbing practices that give their business a bad name as well as in improving the efficiency of their methods. Legitimate operators in the small loans business welcomed the Small Loans Act which did so much to rid them of the unfavorable image of the money-lender. Obviously, a good deal of the resources of money-lenders or credit grantors go into selection of their risks and the exercise of control over extension of credit on their behalf. This helps to explain the very small losses on bad debts suffered by banks, finance companies, department stores, other retail stores, and even the consumer loan companies which deal mainly with the lower income groups. Representatives of these institutions informed us that their losses on loans are almost as low as those of the credit unions which have the undoubted advantage of personal acquaintance with the borrowers who are also their lenders. Losses suffered by these different lending institutions generally vary only within a relatively small range — from about one-half to one per cent. It is obvious that the interests of lenders are well protected.

It is the special role of government to protect society's weaker members. In transactions between corporations and businessmen on the one hand and the man on the street, there is no doubt about who is

in the weaker bargaining position. Although some evidence of abuses was presented to our Committee, we learned a good deal more about this aspect from reports of individual cases brought to the attention of provincial investigating bodies. Abuses appear to be most common in the sale of used cars and in door-to-door selling; the growing practice of consolidation or refinancing of debts also gives us concern, and it is discussed elsewhere. There is evidence of changing practices in retail selling which may benefit some kinds of business at the same time as they damage the prospects of others. The second mortgage field, though not within our terms of reference, becomes relevant to consumer credit when, as sometimes happens, a mortgage is taken out to pay for consumer goods. Another practice, common in the United States, is emerging here: that of selling in a package deal with the house, a stove, refrigerator, washer and dryer — the durable goods that now make up a considerable part of consumer credit buying. Assuming that various segments of business will each look after their own interests, the fact remains that decisions facing the average man are becoming increasingly complicated, and the consumer's need for advice and protection grows.

#### ADVERTISERS

Spokesmen for social agencies have long advocated that advertising of small loans be regulated, but until fairly recent times loan companies have claimed that they were advertising to inform the public that loans were available, not to persuade people to borrow. That is hardly a serious argument today when we are continually bombarded with suggestions to travel now to far-off places, and pay later, or to see "friendly Bob Adams" who will consolidate all our debts. There is a basic conflict between the philosophy of the advertising man, "Don't sell the steak — sell the sizzle" and the consumer's desire to buy a good steak. Nowadays advertisers lure customers with repeated reminders of the importance of making this purchase or taking that trip if they want to be like the others. Children and young people are extremely sensitive to advertising of that kind, and parents are naturally influenced by the aspirations of the family as well as their actual physical requirements.

The unsophisticated are easy prey for novel merchandising devices including package deals, special offers, premiums and services of all kinds when they are represented as means of stretching a small income. The endless stream of persuasion via television, radio, magazines, newspapers, billboards and in the mail, has become a predominant part of our environment.

It hardly seems fair to pit the man on the street against the most sophisticated psychologists employed to pierce his armor, but it would be difficult to regulate the gentle art of persuasion. However, when it is a question of misleading or deceptive advertising, responsible authorities must protect the gullible. The Retail Merchants Association is concerned about practices of a few retailers who "persistently and deliberately carry misrepresentations in their advertising." A representative of the Association who appeared before us, recently told the press that while misrepresentation is practiced only by a small percentage of retailers, the "image of deceit" rubs off on thousands of legitimate storekeepers who are trying to do business honestly. Association members say they are happy to face fair competition, but they are hurt by a few competitors who offer bargains that the public will never get.

Concrete examples of misrepresentation in advertising were brought to the attention of the Committee. One advertisement suggested that a sewing machine would be given away free with the purchase of a cabinet, the price quoted for the cabinet and the machine together being the same as the price for the cabinet alone. Another led prospective customers to believe that by purchasing a record library it was possible to acquire a stereo set free. The price quoted for 62 records was \$4.98 each. Only 15 of these records were listed on the open market at that price, 17 were selling at \$1.98 or \$2.98, and the remaining 30 were discontinued records. Then there was the offer to buy \$180 worth of silverware for \$69.95, accompanied by a "credit gift certificate" for \$110. The "balance payable" was exorbitant for the inferior merchandise offered.

Merchandising and advertising of goods and services important to health and safety have been regulated for many years by the Department of National Health and Welfare, and innovations of all kinds are constantly watched. Weights and measures are regulated with a view to preventing fraudulent and deceptive packaging. But there is strong public demand for further protection, not only from dangerous products and short weight, but from outright misrepresentation and fraud. The Retail Merchants Association would have the Combines Branch of the federal government regulate advertising in the same way as the Federal Trade Commission does in the United States, with power to order advertisers whose claims contain misrepresentations to "cease and desist."

An insurance consultant recently expressed the kind of concern that ethical businessmen have when standards of conduct in their own field

are threatened, noting that advertising and sales methods employed by some accident and health insurance companies "provide an example in many cases of actions which may be legal but are far from ethical". He went on to say that, "Policy provisions which are hard for the insured to understand even when the insurer makes every reasonable effort to clarify them present problem enough. But for the unethical company, the temptation to take advantage of the insured's lack of knowledge is irresistible, and it is a simple matter so to word its advertising and its policy contracts as to trap the unwary, without actually breaking the law."<sup>1</sup>

Similar concern for maintaining ethical standards in the retail business was expressed to us by a representative of the Ontario Retail Merchants Association. He referred to misleading advertising which seems to suggest no down-payment and which would convey the impression that no extra cost was involved in buying on credit. He felt that people advertising along these lines should be required by law to state what the ultimate total payment would be.

We heard criticism of those who advertise cash loans in such a way that the unwary greatly underestimate the cost of the loan. A professor who appeared before us mentioned the need for regulation of advertising practices of banks. He would make it mandatory for banks to disclose in their advertising the actual cost of the loan, stated in the same way as in the agreement itself.

Several submissions emphasized that all advertising of costs by those who extend credit, whether by lending money or by selling goods, should be required to state the total cost in annual percentage rates as well as in dollars and cents. That is a necessary part of applying the concept of full disclosure not only to those who are at the point of entering into a financial obligation, but to all Canadians. Only if the consumer understands the cost involved will he be able to decide freely and rationally whether his financial situation makes it feasible for him to assume credit. And his freedom to choose among different kinds of credit the arrangement that is the best buy for him, obviously depends on statement of the cost in simple and uniform terms.

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<sup>1</sup> "Insurance Ethics—From the Inside Looking Out", Henry K. Duke, CPCU, CLU, *Annals of the American Academy of Political and Social Science*, January 1966, p.p. 102-107.

## APPENDIX NO. 1

SENATORS AND MEMBERS OF PARLIAMENT  
WHO SERVED ON THE COMMITTEE  
DURING INVESTIGATION OF CONSUMER CREDIT

(November 1963 to April 1966)

For the Senate:

The Honourable Senators

Bouffard (Deceased)	Lang
*Croll ( <i>Joint Chairman</i> )	*McGrand
Davey	Robertson ( <i>Kenora-Rainy River</i> )
Deschatelets	(Deceased)
*Gershaw	*Smith ( <i>Queens-Shelburne</i> )
Hastings	Stambaugh (Retired)
Hayden	*Thorvaldson
*Hollett	Urquhart
*Irvine	*Vaillancourt.....17

For the House of Commons:

Messrs.	Miss Jewett
Allmand	Messrs.
Andras	Lachance
Basford ( <i>Joint Chairman</i> )	Lefebvre
*Bell ( <i>Saint John-Albert</i> )	Kindt
*Cashin	*Macdonald ( <i>Rosedale</i> )
Chretien	*Mandziuk
*Clancy	Marcoux
*Coates	*Matte
Cote ( <i>Longueuil</i> )	*McCutcheon
*Crossman	*Nasserden
*Deachman	Olson
Drouin	Orlikow
Duquet	Otto
Gauthier	Pennell (Hon. L. T.)
Greene (Hon. J. J.),	Pugh
( <i>Joint Chairman</i> )	*Ryan
Gregoire	Saltsman
Gundlock	*Scott
Hales	*Vincent.....38
Irvine	

\*Served throughout the hearings on consumer credit.

## APPENDIX NO. 2

## LIST OF WITNESSES

Date of Appearance	Name	Title	Organization
1. June 2 and 9, 1964.....	Kenneth R. MacGregor.....	Then Supt. of Insurance	Dept. of Insurance, Canada
2. June 9, 1964.....	H. A. Urquhart.....	Admin. Officer.....	
3. June 16, 1964.....	Gerald K. Bouey.....	Chief, Research Dept.....	Bank of Canada
4. June 23, 1964.....	{ John M. Hallinan.....	General Manager.....	Ontario Credit Union League
5. ....	{ John H. F. Burton.....	Assistant Supervisor of Exams.....	
6. July 7, 1964.....	{ J. M. Bentley.....	President.....	Canadian Federation of Agriculture
7. ....	{ David Kirk.....	Exec. Sec.....	
8. ....	{ Lorne W. J. Hurd.....	Assistant Exec. Sec.....	
9. July 14, 1964.....	{ Robert Ingram.....	Manager Can. Operations.....	Canadian Credit Union National Association
10. ....	{ Robert Davis.....	League Legislative Specialist.....	
11. Oct. 20, 1964.....	{ Mrs. V. Wilson.....	Chairman, Comm. on Planning and Organiza- tion.....	Consumers' Association of Canada
12. ....	{ Mrs. A. G. Brewer.....	National Advisory Council and former Publicity Chairman.....	
13. Oct. 27, 1964.....	{ G. Egerton Brown.....	Director, Immediate Past Chairman of Executive Council.....	Canadian Chamber of Commerce
14. ....	{ Paul Beaudoin, C.A.....	Member.....	
15. ....	{ W. F. Corning.....	Research Assistant.....	
16. Oct. 27, 1964 and Mar. 23, 1965	Keith MacDonald.....	Member.....	
17. Oct. 27, Nov. 17, 1964; Mar. 9, 1965	N. Liston.....	Member.....	Canadian Chamber of Commerce and Retail Council of Canada
18. Nov. 10, 1964.....	Dr. Jacob S. Ziegel.....	Associate Professor of Law, U. of Sask.....	
19. Nov. 17, 1964 and Mar. 9, 1965	{ A. J. McKichan.....	General Manager.....	Retail Council of Canada
20. ....	{ J. W. Erwin.....	Member.....	
21. ....	{ H. A. Simmons.....	Member.....	
22. Mar. 9, 1965.....	{ Paul Harrison.....	Member.....	
23. ....	{ W. G. Upshall.....	Member.....	
24. Dec. 1, 1964.....	{ S. J. Enns.....	M. P., (Portage- Neepawa).....	Family Bureau of Greater Winnipeg
25. ....	{ Daniel B. Fenny.....	Bureau Rep.....	

## LIST OF WITNESSES (Concluded)

Date of Appearance	Name	Title	Organization
26. Dec. 8, 1964.....	Andre Laurin.....	Tech. Advisor of Ed. Service Family Budget Section.....	Con. of National Trade Unions
27. Dec. 15, 1964.....	{ Emile Girardin.....	President.....	La. Fed. des Caisses Pop. Desjardins
28. ....	{ Paul-Emile Charron.....	Assistant Director General.....	
29. Feb. 23, 1965.....	Douglas D. Irwin, C.A.....	Financial Consultant, Ont. Select Committee on Consumer Credit	
30. Mar. 16, 1965.....	{ Don Rolling.....	Assistant Manager.....	Retail Merchants Association of Canada Inc.
31. ....	{ W. W. Boys.....	Second Vice-Pres. Dom. Ass'n.....	
32. ....	{ Vincent R. Deir.....	Director, Ontario Association.....	
33. Mar. 23, 1965.....	{ Peter Paul Saunders.....	President.....	Federated Council of Sales Finance Companies*
34. ....	{ G. E. Trudeau.....	Director.....	
35. ....	{ J. Johnstone.....	Chairman, Legal and Legislative Committee....	
36. ....	{ W. Watson Evans.....	Vice-Pres.....	
37. ....	{ Dr. J. Singer.....	Research Director and Consulting Economist....	
38. ....	{ E. Michael Howarth.....	Executive Vice-Pres.....	
39. ....	{ Kenneth Inch.....	Member.....	
40. Mar. 30, 1965.....	{ J. T. Wood.....	President.....	Canadian Consumer Loan Association
41. ....	{ J. S. Land.....	Past Pres.....	
42. ....	{ E. J. Hendrie.....	Past Pres.....	
43. ....	{ R. A. Mackenzie.....	Member.....	
44. ....	{ R. G. Miller.....	Member.....	
45. ....	{ Helmut Miller.....	Member.....	
46. ....	{ R. W. Stevens.....	Counsel.....	
47. ....	{ F. C. Oakes.....	Public Relations Chairman.....	
48. April 21, 1966.....	Dan McCormack.....	Vice-Pres. and General Manager, Carling Acceptance Limited.	

\* Keith MacDonald, Director, also appeared with this delegation. (See No. 16.)

## APPENDIX NO. 3

## BILLS REFERRED TO THE COMMITTEE

Shortly after the appointment of the Joint Committee on Consumer Credit by the 26th Parliament, eleven bills already on the order paper were referred to us for study. All but one — the well-known disclosure bill which has been introduced in the Senate repeatedly since 1960 — originated in the House of Commons. Some of these bills have changed sponsors during the life of the Committee, and a few new bills were subsequently referred. It sometimes happens that an identical bill, re-introduced in a new session, is again referred to the Committee; there are other instances in which a bill which has been several times introduced in Parliament with no change in substance, has been referred to us only once.

The bills considered by the Committee (14 in all when duplicates have been eliminated) are listed below in the order in which they were officially brought to our attention. Each bill is explained briefly, and some general comments follow.

Bill Referred By	Title and Purpose	Sponsor or Sponsors
26th Parliament	(1) An Act to make provision for the Disclosure of Information in respect of Finance Charges	Senator Croll
	Every person who carries on the business of extending consumer credit would be required to disclose in writing to the consumer the total cost, expressed both as a lump sum and in simple annual interest.	
	(2) An Act to amend the Bankruptcy Act (wage-earners' assignments)	Mr. Gilbert ( <i>Broadview</i> ) and Mr. Orlikow ( <i>Winnipeg North</i> )
	Outlines procedure for granting debt-ridden wage-earners extension of time up to three years or longer in court's discretion, at price of discipline of budgetary control, to pay debts 100 cents on the dollar. Also provides for relief against unconscionable transactions.	
	(3) An Act to amend the Small Loans Act (advertising)	Mr. Orlikow
	Would require licensees advertising amount of monthly or periodic repayments to state cost in terms of annual percentage rates.	
	(4) An Act to amend the Small Loans Act (interest rates)	Mr. Orlikow and Mr. Gauthier ( <i>Roberval</i> )
	The rate of interest or "cost of loan" would be reduced from 2 to 1 per cent per month on any part of the unpaid principal balance not exceeding \$300.	

## BILLS REFERRED TO THE COMMITTEE—(Continued)

Bill Referred By	Title and Purpose	Sponsor or Sponsors
26th Parliament ( <i>cont'd</i> )	(5) An Act to provide for the Control of Consumer Credit  Provides for disclosure of actual amount of interest charged on the sale of both real and personal property, as well as for restricting interest to 10 per cent per annum.	Mr. Scott ( <i>Danforth</i> )
	(6) An Act to amend the Bills of Exchange Act and the Interest Act (off-store instalment sales)  Amendment to the Bills of Exchange Act would give consumer three full days to cancel any bill or note given as collateral in sales made in his home or other "off-store" premises. The change in the Interest Act would compel the seller to include a clause to this effect in the contract.	Mr. Orlikow
	(7) An Act to amend the Bills of Exchange Act (instalment purchases)  Object is to enable persons who give bills or notes in retail credit transactions to defend themselves against transferees by requiring that note on face indicate relationship with a retail transaction.	Mr. Peters ( <i>Temiskaming</i> )
	(8) An Act to amend the Interest Act  Proposal that interest be limited to 12 per cent.	Mr. Orlikow Mr. Leduc ( <i>Gatineau</i> ) and Mr. Allard ( <i>Sherbrooke</i> )
	(9) An Act to amend the Interest Act (application of Small Loans Act)  Would limit interest rates generally to those stipulated in the Small Loans Act unless otherwise provided by law.	Mr. Martin ( <i>Timmins</i> )
	(10) An Act to provide for Control of the use of Collateral Bills and Notes in Consumer Credit Transactions  Consumers who sign promissory notes as collateral in credit transactions would be warned that they could become liable to innocent purchasers of same. Interest rates would be limited to 1 per cent per month on principal amounts up to \$500 and one-half of 1 per cent on any balance exceeding \$500.	Mr. Ryan ( <i>Spadina</i> )
	(11) An Act to amend the Combines Investigation Act (captive sales financing)	Mr. Noble ( <i>Grey North</i> )

## BILLS REFERRED TO THE COMMITTEE—(Concluded)

Bill Referred By	Title and Purpose	Sponsor or Sponsors
26th Parliament (concl'd)	Would prohibit practice of "captive" sales financing by manufacturers or distributors of goods or associated sales finance companies, and so permit customers to shop in a free, competitive market.	
27th Parliament	(12) An Act to amend the Weights and Measures Act (truth in packaging)  Bill is intended to ensure that a retail purchaser of packaged goods is fairly informed of the weight or measure of the contents.	Mr. Orlikow
	(13) An Act to amend the Small Loans Act (interest rates)  The upper limit of loans to which the Small Loans Act applies would be raised from \$1,500 to \$5,000. For loans over \$1,000 the interest rate would be reduced to one-half of 1 per cent per month on unpaid balance.	Mr. Allard
	(14) An Act to amend the Small Businesses Loans Act (trucking industry)  "Trucking" would be added to the definition of a business enterprise. The definition of "small business enterprise" would be broadened to include a business with estimated gross revenue up to \$300,000 instead of \$250,000.	Mr. Leblanc (Laurier)

## COMMENTS ON BILLS

### DISCLOSURE

One of our main recommendations endorses the substance of the Senate bill dealing with disclosure in writing of the total cost of consumer credit both as a lump sum and in simple annual interest. This bill is a descendant of one first introduced in the Upper House in 1960, now simplified for the reason that some of the original provisions are being taken care of in other ways. The revision of the Bank Act now before Parliament, which followed the report of the Royal Commission on Banking and Finance, means that banks will lead the parade of financial institutions giving meaningful disclosure to their customers of the full cost to them of borrowing money. The long-time sponsor of the bill which applies the same principle to other lenders has said that, "We can expect and cannot accept less from other credit grantors in the field."

As to the disclosure bills originating in the House of Commons, one goes beyond our terms of reference in that it covers real property transactions as well as consumer credit. The other would require small loans licensees to specify in their advertising the cost of loans. We agree with the objective of this bill, and one of our recommendations attests to that.

#### INTEREST

There is ample evidence of widespread support for bringing down the cost of borrowing. Three members of parliament have separately introduced bills to amend the Interest Act so as to limit the interest rate to 12 per cent per annum. Another bill would extend to other types of loans the rates fixed under the Small Loans Act. Three separate bills propose a reduction in the rates under the Small Loans Act, one of them providing also for extension of the scope of the Act to loans up to \$5,000, a plan which has solid support and which is among our recommendations.

Limitations on interest rates are also set out in two other bills dealing respectively with disclosure and with credit purchases. The Committee has considered these proposals as well as others made to us during the hearings. We do recommend that some limitations be put on interest rates, and we have particularly kept in mind the importance of ensuring that low-income people have access to credit at reasonable rates for essential needs.

#### WAGE-EARNERS' ASSIGNMENTS

Recent amendments to the Bankruptcy Act will enable the setting up of machinery to make it possible for wage-earners to assume orderly payment of their debts without extreme sacrifice. This is essentially the purpose of one of the bills referred to us.

#### BILLS AND NOTES IN CONSUMER CREDIT TRANSACTIONS

One of the bills before us would require bills and notes in consumer credit transactions to be so identified in order to warn the purchaser of the circumstances; another would give warning to the consumer that if he signs the document it may be sold to a third party against whom he will have no claim. One of our recommendations should take care of the undesirable practices which these bills are intended to do away with.

#### CAPTIVE SALES FINANCING

The Committee agrees that customers should be free to shop in a competitive market, and we believe that our recommendations will work towards that end.

### OFF-STORE SALES

We recommend that when purchases are made from itinerant salesmen, time be allowed for a cooling-off period, something that has been urged on us by many responsible people and is contemplated by one of the bills referred to us.

### TRUTH IN PACKAGING

We are in sympathy with the purpose of this bill, but it is more appropriately a subject for the report on cost of living.

### SMALL BUSINESSES

This subject is beyond our terms of reference.

### PRESENT STATE OF LEGISLATION

Experience has convinced us of the truth of a statement made when the Committee was set up, that there is need for "an attempted consolidation of these inter-related acts." After studying the subject for many months one of our most knowledgeable members informed the House of Commons that there was "need for complementary and cooperative action by the federal and provincial governments for the purpose of securing the protection of Consumers . . ." Considerable progress has been made in this direction, and many parts of the report bear this out, but much still remains to be done in this rapidly changing area of business.

## APPENDIX NO. 4

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9. Final Report of the Select Committee of the Ontario Legislature on Consumer Credit, Sessional Paper No. 85, June 10, 1965.
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